Questions to be included with Video Accounting: IPCC Gr.2

CHAPTER 1: SHARES/DEBENTURES (ADVANCED ISSUES)

Q.1: Pass journal entries in year 2010 in the case of the issue of debentures by ABC Co. Ltd.:
Issued Rs. 1,00,000 11% debentures at 95 percent redeemable at the end of 5 years (i) at 105 percent, and (ii) at 97 percent.

Q.2: A Ltd. issued Rs. 1,50,000, 12% Debentures on the 1-1-2011 at a discount of 5%, repayable at 5% Premium, in Annual Drawings of Rs. 50,000 commencing from 31st December following. The company's year ends on 31st December. Show the necessary Accounts over the three years, assuming that the company decided to write off Loss on issue of Debenture during the life of the Debentures.

Q.3: (IPCC-Gr.-II-May10) A Company has issued 20,000, 13% Convertible debentures of Rs. 100 each on 1st April, 2007. The debentures are due for redemption on 1st July, 2009. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentures-holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debentureholders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debentureholders exercising the option to the maximum.

Q.4: (IPCC-Gr.-II-May 11) XYZ Ltd. had issued 30,000, 15% convertible debenture of Rs. 100 each on 1st April 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal Value Rs. 10) at a price of Rs. 15 per share. Debentureholders holding 2500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

Q.5: (IPCC-Gr.-II-Nov.10) Rama Limited issued 8% Debentures of Rs. 3,00,000 in earlier year on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its own debentures in the open market for cancellation thereof. The following purchases were made during the financial year 2009-10 and cancellation made on 31st March 2010:

a. On 1st April Rs. 50,000 nominal value purchased for Rs. 49,450, ex-interest.
b. On 1st September Rs. 30,000 nominal value purchased for Rs. 30,250 cum interest.

Show the Journal Entries (without narrations) for the transactions held in the year 2009-10.

Q. 6: On 1-1-2011 S. Co. Ltd. issued 2,000 8% Debentures of Rs.100 each repayable at par at the end of 4 years. It was decided to create a Sinking Fund for repayment of the Debentures and invest the amount of fund in 6% Government Securities.

Show the ledger accounts for the 4 years assuming that the investments were realised for Rs.1,40,000 only. The Debentures were paid off at the end of the period.

Annual installment to provide Rs.1 at the end of 4 years at 6% compound interest is Re.0.228591.

Q.7: (PCC-Nov. 10) A company had 16,000, 12% debentures of Rs. 100 each outstanding as on 1st April, 2009, redeemable on 31st March, 2010. On that day sinking fund was Rs. 14,98,000 represented by

2,000 own debentures purchased at the average price of Rs. 99 and 9% stocks face value of Rs. 13,20,000. The annual installment was Rs. 56,800.

On 31st March, 2010, the investments were realized at Rs. 98 and the debentures were redeemed. You are required to write up the following accounts for the year ending 31st March, 2010.

(1) 12% debentures account

(2) Debenture redemption sinking fund account.

Q.8: Pass entries for the following:

a. 2,000 equity shares of Rs. 100 each issued free to employees for providing know how.
b. Shares in (a) above are issued at a consideration of Rs. 30/-
c. Shares in (a) above are priced at Rs. 120 but issued (i) free or (ii) at a consideration of Rs. 30/-
d. Shares in (a) above are priced at Rs. 90/- but issued (i) free or (ii) at a consideration of Rs. 30/-

Q.9: A company grants on 1.10.2007 option to its employee, to buy 1000 shares of Rs. 10/- each having market price Rs. 220/- at a exercise price of Rs. 60/-. The vesting period is 2 years and maximum exercise period is 1 year. 100 unvested options lapsed on 1.7.2008 as the concerned employees left the company. 500 vested options were exercised by 31.3.2010 and 300 by 30.9.2010 and 100 lapsed unexcercised. Company's accounts closes on 31st March every year. Pass journal entries and show how the relevant figures will appear in the final accounts.

Q.10: (IPCC-Gr.-II-May 11) A Company has its share capital divided into shares of Rs. 10 each. On 1st April 2010 it granted 20,000 employees' stock options at Rs. 40, when the market price was Rs. 130. The employees exercised their options for 18,000 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries with regard to employees' stock option.

Q.11: (PCC-Nov. 10) KG Limited furnishes the following Balance Sheet as at 31st March, 2010.

Liabilities	Amount (Rs. in Lakhs)	Assets	Amount (Rs. in Lakhs)
Equity share capital (fully paid up shares of Rs. 10 each)	1,200	Machinery	1,800
		Furniture	226
Securities Premium	175	Investments	74
General Reserve	265	Stock	600
Capital Redemption Reserve	200	Debtors	260
Profit & Loss A/c	170	Cash at bank	740
12% Debentures	750		
Sundry Creditors	745		
Other current liabilities	195		
	3,700		3,700

On 1st April, 2010, the company announced the buy back of 25% of its equity shares @ Rs. 15 per share. For this purpose, it sold all of its investments for Rs. 75 lakhs.

On 5th April 2010, the company achieved the target of buy back. On 30th April, 10 the company issued one fully paid up equity share of Rs. 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary Journal Entries for the above transactions.

(2) Prepare Balance Sheet of KG Limited after bonus issue of the shares.

Q.12: (IPCC-Gr.-II-Nov.10) Extra Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed assets less depreciation	50
Equity Shares of Rs.10 each fully paid	100	Investments at cost	120
9% Redeemable Preference Shares of Rs. 100 each fully paid	20	Current assets	142
Capital Reserves	8		
Revenue Reserves	50		
Share Premium	60		
10% Debentures	4		
Current Liabilities	70		
	312		312

(i) The company redeemed the preference shares at a premium of 10% on 1st April 2010.

(ii) It also bought back 3 lakhs equity shares of Rs. 10 each at Rs. 30 per share.

The payment for the above were made out of huge bank balances, which appeared as a part of the current assets.

(iii) Included in it's investment were "investments in own debentures" costing Rs. 2 lakhs (face value Rs. 2.20 lakhs). These debentures were cancelled on 1st April 2010.

(iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at Rs. 20 when the market price was Rs. 30.

(This was included under Current liabilities). On 1-04-2010 employees exercised their options for 50,000 shares.

(v) Pass the Journal Entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.2010.

CHAPTER 2: UNDERWRITING

Q.1: CAPS Ltd. issued 10,000 shares of Rs.100 each at a premium of Rs.20 each. 90 % of the issue was underwritten by M/s. Broker and Co. at a commission of 2% on the nominal value. Applications were received for 8,000 shares and allotment was fully made. All moneys due from allottees were received in one instalment. The accounts with Broker & Co. were settled. Show the journal entries to record the transaction. Solve it under following different alternatives:

A. 100 % of the issue was underwritten. Applications were received for (i) 8,000 shares. (ii) 10,000 shares. Or (iii) 12,000 shares.

B. 80 % of the issue was underwritten. (i) 8,000 shares. (ii) 10,000 shares. (iii) 12,000 shares.

C. 80 % of the issue was underwritten. (i) 8,000 shares out of which 5,500 are marked. (ii) 10,000 shares out of which 7,000 are marked. (iii) 12,000 shares out of which 9,000 are marked.

Q.2. (May 08) Albert Ltd. issued 50,00,000 Equity shares of Rs. 10 each. The whole issue was underwritten by A, B and C as below: A:15,00,000 shares, B:25,00,000 shares, C:10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

A 12,00,000 shares B 25,00,000 shares C 8,50,000 shares

Calculate the number of shares to be taken up by the underwriters.

Q.3: (IPCC-Gr.-II-May10) Chaitanya Limited issues 40,000 shares. Issue is underwritten by A, B and C in the ratio of 5 : 3 : 2 respectively. Unmarked application totaled 2000 whereas marked applications are as follows: A:16,000 shares, B:5,700 shares, C:8,300 shares

Q.4: (IPCC-Gr.-II-May 11) Delta Ltd. issue 25,00,000 equity shares of Rs. 10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, Q & R in the ratio of 2 ; 3 : 4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting were as P: 3,00,000 ; Q: 3,50,000 ; R: 4,50,000

Unmarked and surplus applications to be distributed in Gross liability ratio. Ascertain the liability of each underwriter.

Q.5: (PCC-May 11) Rising Sun Limited came up with an issue of 25,00,000 Equity shares of Rs. 10 each at par. 4,00,000 shares were issued to the promoters and balance offered to the public. Issue was underwritten by three underwriters A & Co., B & Co., and C & Co., equally, with firm underwriting of 1,00,000 shares each. Subscription totaled 17,26,000 shares, including the marked forms which were as under:

A & Co.	5,18,000 Shares
B & Co.	5,50,000 Shares
C & Co.	4,72,000 Shares

The underwriters had applied for the number of shares covered by firm underwriting. The amount payable on application and allotment were Rs. 3 & Rs. 2 respectively. The agreed commission is 3%.

You are required to calculate: (i) The liability of each underwriter.

(ii) The amount payable and/or receivable by the underwriters.

CHAPTER 3: LIQUIDATION

Q. 1: M. Co. Ltd. went into voluntary liquidation on 1st March, 2011. The following balances are extracted from its books on that date:

Liabilities	Rs.	Assets		Rs.
Capital: 50,000 equity shares of	5,00,000	Building		1,50,000
Rs.10 each		Plant and Machinery		2,10,000
Debentures		Stock in trade		95,000
(secured by a floating charge)	2,00,000	Book Debts	75,000	
		Less: Provision	10,000	65,000
Bank Overdraft	30,000	Calls in arrears		1,00,000
		Cash-on-hand		10,000
Creditors	40,000	Profit and Loss A/c.		1,40,000
	7,70,000			7,70,000

Plant and Machinery and Buildings are valued at Rs.1,50,000 and Rs.1,20,000 respectively. On realisation, losses of Rs.15,000 are expected on Stock. Book Debts will realise Rs.70,000. Calls in arrears are expected to realise 90%. Bank Overdraft is secured against Buildings. Preferential Creditors for taxes and wages are Rs.6,000 and Miscellaneous Expenses outstanding Rs.2,000.

Prepare a **Statement of Affairs** to be submitted to the meeting of Creditors.

Q.2: (PCC-May 10) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized Rs. 10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is Rs. 4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors in toto.

Q.3: (IPCC-Gr.-II-Nov.10) A company went into liquidation whose creditors are Rs. 36,000 includes Rs. 6,000 on account of wages of 15 men at Rs. 100 per month for 4 months immediately before the date of winding up; Rs. 9,000 being the salaries of 5 employees at Rs. 300 per month for the previous 6 months, Rent for godown for the last six months amounting to Rs. 3,000; Income-tax deducted out of salaries of employees Rs. 1,000 and Directors Fees Rs. 500; in addition it is estimated that the company would have to pay Rs. 5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

Q.4: (IPCC-Gr.-II-May 11) The summarized Balance Sheet of Full Stop Limited as on 31st March 2011, being the date of voluntary winding up is as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land & Building	5,20,000
5000, 10% Cumulative Preference		Plant & Machinery	7,80,000
Shares of Rs. 100 each fully paid up	5,00,000	Stock in Trade	3,25,000
Equity Share Capital:		Book Debts	10,25,000
5000 Equity shares of Rs. 100 each Rs.		Profit & Loss Account	5,50,000
60 per share called and paid up	3,00,000		
5000 Equity shares of Rs. 100 each Rs.	2,50,000		
50 per share called up and paid up	7,50,000		
Securities premium	2,10,000		
10% Debentures	1,05,000		
Preferential Creditors	4,85,000		
Bank Overdraft	6,00,000		
Trade Creditors			
	32,00,000		32,00,000

Preference Dividend is in arrears for three years. By 31-03-2011 the assets realized were as follows:

	Rs.
Land & Building	6,20,000
Stock in Trade	3,10,000
Plant & Machinery	7,10,000
Book Debts	6,60,000

Expenses of liquidation are Rs. 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income Tax payable on liquidation is Rs. 67,000. assuming that the final payments were made on 31-03-2011, prepare the Liquidator's Statement of Account.

Q.5: (Nov.2007-PE-II) The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of Rs. 100 each fully paid up.

50,000 Equity shares of Rs. 10 each fully paid up.

30,000 Equity shares of Rs. 10 each, Rs. 8 paid up.

Assets realized Rs. 20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized Rs. 3,20,000)	3,50,000
Debenture holders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs. 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

Q.6: (PCC-June 09) From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account.

(i) Cash with liquidators (after all assets are realised and secured creditors and debentureholders are paid) is Rs.7,50,000.

(ii) Preferential creditors to be paid Rs.35,000.

(iii) Other unsecured creditors Rs.2,30,000.

(iv) 5,000, 10% preference shares of Rs.100 each fully paid.

(v) 3,000 equity shares of Rs.100 each, Rs.75 per share paid up.

(vi) 7,000 equity shares of Rs.100 each, Rs.60 per share paid up.

(vii) Liquidator's remuneration is 2% on payments to preferential and other unsecured Creditors

Q.7: (Nov.2004) The position of Valueless Ltd. on its liquidation is as under:

Issued and paid up capital:

3,000 11% preference shares of Rs. 100 each fully paid.

3,000 Equity shares of Rs. 100 each fully paid.

1,000 Equity shares of Rs. 50 each Rs. 30 per share paid.

Calls in Arrears are Rs. 10,000 and calls received in Advance Rs. 5000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is Rs. 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidator final statement of account.

Q.8: (IPCC-Gr.-II-May10) From the following Trial Balance of PQ Ltd. on 31.12.2009, prepare liquidators Final statement of account:

	Rs.	Rs.
9% Preference share capita	–	1,25,000
(1250 Pref. shares @ 100 each fully paid)		
Equity share capital:		
2,000 Equity shares @ 100 each fully paid	–	2,00,000
2,000 Equity shares @ 100 each Rs. 50 paid up	–	1,00,000
Plant	3,00,000	–
Stock-in-trade	3,60,000	–
Sundry Debtors	85,000	–
Sundry Creditors	–	2,21,000
Bank balance	1,20,000	–
Preliminary expenses	6,000	–
6% Mortgage loan	–	2,30,000
Outstanding liabilities for expenses	–	25,000
Profit and Loss A/c	30,000	–
(Trading loss for the year 2009)		
	9,01,000	9,01,000

Following points should be kept in mind:

(i) On 21 January, 2010 the liquidator of PQ Ltd. sold plant for Rs. 2,95,000 and stock in trade at 10% less than the book value. He realized 80% of Sundry debtors and incurred cost of collection of Rs. 1,850 (remaining debtors are to be treated as bad).

(ii) The loan mortagage was discharged as 31st January, 2010 alongwith interest for 6 months .Creditors were discharged subject to 5% discount. Out standing expenses paid at 20% less.

(iii) Preference share dividend is due for one year and paid with final payment.

(iv) Liquidation expenses incurred are Rs. 1,800 and liquidators remuneration is settled at 4% on disbursement to members, subject to minimum of Rs. 10,000.

Q.9: The following is the Balance Sheet of Y Limited as at 31st March, 2011 :

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital :		Fixed Assets :	
2,000 Equity Shares of 100 each,		Land & Buildings	4,00,000
Rs. 75 per share paid-up	1,50,000	Plant & Machinery's	3,80,000
6,000 equity shares of Rs. 100			
each Rs. 60 per share paid-up	3,60,000	Current Assets :	
2,000 10% Preference Share of		Stock at cost	1,10,000
Rs. 100 each fully paid-up	2,00,000	Sundry debtors	2,20,000
10% Debentures (having a		Cash at Bank	60,000
floating charge on all assets)	2,00,000		
Interest accrued on Debentures			
(also secured as above)	10,000	Profit and Loss A/c	
	4,90,000		2,40,000
Sundry Creditors	14,10,000		14,10,000

On that date, the company went into Voluntary Liquidation. The dividends on preference shares were in arrears for the last two years. Sundry Creditors include a loan of Rs. 90,000 on mortgage of Land and Buildings.

The assets realised were as under: Rs.

Land and Buildings	3,40,000	Plant & Machineries	3,60,000
Stock	1,20,000	Sundry Debtors	1,60,000

Interest accrued on loan on mortgage of building upto the date of payment amounted to Rs. 10,000. The expenses of liquidation amounted to Rs. 4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realised (except cash at bank) and 2% on the amounts distributed among equity shareholders. Preferential creditors included in sundry creditors amount to Rs. 30,000. All payments were made on 30th June, 2011. Prepare the Liquidator's final statement of account.

Q.10: The following is the Balance Sheet of Confidence Builders Ltd., as at 30th September, 2011

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital: Issued		Land and Building	1,20,000
11% Preference Shares of Rs.10 each	1,00,000		
10,000 equity Shares of Rs.10 each		Sundry Current Assets	3,95,000
fully paid-up	1,00,000		
5,000 equity shares of Rs.10 each		Profit and Loss Account	38,500
Rs.7.50 per share paid up	37,500		
13% Debentures	1,50,000	Debentures issue expenses	2,000
Mortgage Loan	80,000	not written off	
Bank Overdraft	30,000		
Creditors for Trade	32,000		
Income-tax Arrears:			
(assessment concluded July-2011)			
Assessment year 2009-10	21,000		
Assessment year 2010-11	5,000		
	5,55,500		5,55,500

Mortgage loan was secured against land and buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture-holders appointed a Receiver and this was followed by a resolution for member's voluntary winding up. the Receiver for the Debenture holders brought the land and buildings to auction and realised Rs.1,50,000. He also took charge of Sundry assets of the value of Rs.2,40,000 and realised Rs.2,00,000. The Liquidator's realised Rs.1,00,000 on the sale of the balance of sundry current assets. The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company and on the Bank raising a demand the Directors paid off the dues from their personal resources. Costs incurred by the Receiver were Rs.2,000 and by the Liquidator's Rs.2,800. The Receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 30th September, 2009 and interest for the last half-year was due to the debenture holders.

Prepare the accounts to be submitted by the Receiver and the Liquidator.

Q.11: (Nov.2004) Liquidation of YZ Ltd. commenced on 2nd April, 2004. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfer which took place in 2003 and 2004:

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2000	1st March, 2003	Rs. 2,500
P	1500	1st May, 2003	Rs. 3,300
Q	1000	1st October, 2003	Rs. 4,300
R	500	1st November, 2003	Rs. 4,600
S	300	1st February, 2004	Rs. 6,000

All the share were of Rs. 10 each, Rs. 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

CHAPTER 4: BANKING COMPANY

Q.1: From the following information identify the non-performing assets (NPA) of commercial bank for the year ending 31st March 2011.
Terms Loans: Rs. 150 lakhs of which interest remains over due for 90 days on Rs. 50 Lakhs;
Cash credit and overdrafts: Rs. 1120 lakhs of which interest remained over due for 90 days on Rs. 150 lakhs;
Bill purchased and discounted: Rs. 2150 lakhs of which discount remained over due for 90 days on Rs. 350 lakhs.

Q.2: Following are the statements of interest on advances in respect of performing and non-performing assets of Madura Bank Ltd. Find out the income to be recognised for the year ended 31.3.2011.

		Rs. in lakhs
Performing Assets	**Interest earned**	**Interest received**
Cash credit and overdrafts	1,600	1,100
Term loan	400	300
Bills purchased and discounted	800	600
Non-performing Assets		
Cash credit and overdraft	400	70
Term loan	300	60
Bills purchased and discounted	300	50

Q.3: From the following information of Great Bank Limited, compute the provisions to be made in the Profit and Loss account:

	Rs. in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured Rs.5000 lakhs)	6,000
For two years and three years (secured Rs.3000 lakhs)	4,000
For more than three years (secured by mortgage of plant and machinery Rs. 600 lakhs)	2,000
Non-recoverable Assets	1,500

Q.4: (PCC-May 10) From the following information find out the amount of provision to be shown in the Profit and Loss account of a Commercial Bank:

Assets	Rs. In lakhs
Standard	4,000
Sub-standard	2,000
Doubtful upto one year	900
Doubtful more than one year but upto three years	400
Doubtful more than three years	300
Loss assets	500

Doubtful assets are considered as fully secured.

Q. 6: Rajat Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any interest since March 2008.

	Term Loan	Export Credit
Balance outstanding on 31-3-2011	Rs. 50 Lacs	Rs. 40 Lacs
DICGC/ ECGC over	60%	50%

Securities held	Rs. 25 Lacs	Rs. 12 Lacs
Realisable value of securities	Rs. 20 Lacs	Rs. 10 Lacs

Compute the necessary provisions to be made for the year ended 31st March 2011.

Q.7: (PCC-Nov. 10) As on 31st March, 2010, Strong Bank Ltd. had a balance of Rs. 27 crores in "rebate on bills discounted" account. The bank provides you the following further information.

a. During the financial year ending 31st March 2010, Strong Bank Ltd. discounted bills of exchange of 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.
b. Bills of Exchange of Rs. 600 crores were due for realization from the acceptors/customers after 31st March, 2010, the average period outstanding after 31st March, 2010, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

Q.8: (IPCC-Gr.-II-May10) Given below is an extract from the trial-balance of T.K. Bank Limited as on 31st December, 2009:

	Debit Rs.	**Credit Rs.**
Bills discounted	12,64,000	–
Rebate on bills discounted (1.1.2009)	–	8,340
Discount received for the year	–	85,912

An analysis of the bills discounted is shown below:

Amount Rs.	Due date in 2010	Rate of discount (% p.a.)
1,40,000	March 6th	5
4,36,000	March 12th	4.5
2,82,000	March 26th	6
4,06,000	April 6th	4

Show the workings, how the relevant items appear in the Bank's Profit and Loss account as on 31st December, 2009 and in Bank's Balance Sheet as on 31st December, 2009.

Q.9: From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the general ledger.

On 1-4-2010 Acceptances not yet satisfied stood at Rs. 24,00,000. Out of which Rs. 21 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of The Acceptance Register revealed the following:

Client	Acceptances/ Guarantees Rs.	Remarks
A	12,00,000	Bank honoured on 10-6-2010
B	10,00,000	Party paid off on 30-9-2010
C	8,00,000	Party failed to pay & bank had to honour on 30-11-2010
D	5,00,000	Not satisfied upto 31-3-2011
E	4,00,000	do
F	3,00,000	do
Total	42,00,000	

Q.10: (May-2006) From the following details, prepare bills for collection (Asset) A/c and Bills for collection (Liability) A/c :

Rs.

On 1.4.2005, Bills for Collection were	51,00,000
During the year 2005-06 Bills received for Collection amounted to	75,00,000
Bill collected during the year 2005-06	98,47,000
Bill dishonoured and returned during the year	27,10,000

Q.11: From the following information, prepare the Profit and Loss Account of Trident Bank Ltd. for the year ended 31st March, 2011: -

		Rs.
a.	Interest on loan	2,59,000
b.	Interest of Fixed Deposits	2,75,000
c.	Rebate on Bills Discounted	49,000
d.	Commission	8,200
e.	Establishment Expenses	54,000
f.	Discount on Bills Discounted	1,95,000
g.	Interest on cash credits	2,23,000
h.	Interest on current accounts	42,000
i.	Rent and Taxes	18,000
j.	Interest on overdrafts	1,54,000
k.	Director's fees	3,000
l.	Auditor's fees	1,200
m.	Interest on savings deposits	68,000
n.	Postage and Telegram	1,400
o.	Printing and Stationery	2,900
p.	Sundry Charges	1,700

Bad Debts written off amounted to Rs. 40,000. Provision for taxation may be made @ 35%. Workings should form part of your answer.

Q.12: The following are the figures extracted from the books of New Era Bank Limited as on 31-3-2011:

	Rs.
Interest and Discount received	37,00,000
Interest paid on Deposits	20,33,000
Issued and subscribed Capital	10,00,000
Salaries and allowances	2,00,000
Directors fees and allowances	30,000
Rent and Taxes paid	90,000
Postage and Telegrams	60,000
Statutory reserves fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	65,000
Profit on Sale of investments	2,00,000
Depreciation on Bank's properties	30,000
Stationary expenses	40,000
Preliminary expenses	25,000
Auditors fees	5,000

The following further information is given :

1. A customer to whom a sum of Rs. 8 lakh has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
2. There were also other debts for which a provision of Rs. 1,70,000 was found necessary by auditors.

3. Rebate on Bills discounted on 31-3-2010 was Rs. 20,000 and on 31-3-2011 was Rs. 25,000.
4. Provide Rs. 6,50,000 for Income-tax.
5. The directors desire to declare 10% dividend.

Prepare the Profit and Loss Account of New Era Bank Limited for the year ended 31-3-2011.

Q.13: (May 2005) From the following information calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of Zed Bank Ltd. For the year ended 31.3.2004:

	(Rs. in '000)
Interest and discount (Including interest accrued on investments)	8860
Other income	220
Interest expended	2720
Operating expenses	2830
Interest accrued on investments	10

Additional information:

	(Rs. in '000)
a) Rebate on bills discounted to be provided for	30
b) Classification of advances:	
i. Standard assets	4000
ii. Sub-standard assets	2240
iii. Doubtful assets – (fully unsecured)	390
iv. Doubtful assets – covered fully by security	
Less than 1 year	100
More than 1 year, but less than 3 years	600
More than 3 years	600
v. Loss assets	376
c) Provide 35% of the profit towards provision for Taxation.	
d) Transfer 20% of the profit to Statutory Reserve.	

Q.14: (PCC-May 11) From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Hamara Bank Limited' for the year ending 31st March, 2010.

	Rs. in laksh		Rs. in lakhs
Interest and discount	4,430	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Interest accrued on Investments	10		

Additional Information:

(i)	Rebate on bills discounted to be provided for	15
(ii)	Classifications of Advances:	
	Standard Assets	2,500
	Sub-Standard Assets	560
	Doubtful Assets not covered by security	255
	Doubtful Assets covered by security	
	For 1 year	25
	For 2 years	50
	For 3 years	100
	For 4 years	75
	Loss Assets	100
(iii)	Make Tax provisions @ 35% of the profit	
(iv)	Profit and Loss Account (Cr.) brought forward from previous year	40

Q.15: (IPCC-Gr.-II-May 11) From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2011. Also give necessary Schedules.

	Figures are in Rs. Thousands
Interest earned on Term Loans	17.26
Interest earned on Term Loans classified as NPA	4.52
Interest Received on Term Loans classified as NPA	2.04
Interest on Cash credits and Overdrafts	38.54
Interest earned but not received on Cash credit and overdraft treated as NPA	8.39
Interest on Deposits	27.20
Commission	1.97
Profit on sale of Investments	11.76
Profit on revaluation of Investments	2.76
Income from Investments	15.53
Salaries Bonus and Allowances	18.75
Rent, Taxes and Lighting	1.70
Printing and Stationary	0.75
Director's fees, allowances expenses	1.33
Law charges	0.22
Repairs and Maintenance	0.18
Insurance	0.30
Other Information	
Mark necessary provision on risk assets:	
(i) Sub-standard	15.00
(ii) Doubtful for one year	7.00
(iii) Doubtful for two year	2.40
(iv) Loss assets	0.65
Investments	3700

Bank should not keep more than 25% of its investments as 'held-for-maturity' investment. The market value of its best 75% investments is Rs. 9,00,000 as on 31st March, 2011.

Q.16: (IPCC-Gr.-II-May10) How will you disclose the following Ledger balances in the Final accounts of DVD bank:

	Rs. In Lacs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted & purchased	800

Additional information:

(i) Included in the Current accounts ledger are accounts overdrawn to the extent of Rs. 250 lacs.

(ii) One of the Cash Credit account of Rs. 10 lacs (including interest Rs. 1 lacs) is doubtful.

(iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

Q.17: From the following ledger balances, prepare final Balance Sheet of South Indian Bank as on 31st March, 2011 giving the relevant schedules:

(Amount in '000 Rs.)

	Dr.	Cr.
Share capital 19,80,000 shares of Rs.10 each		198,00
Statutory Reserve		231,00
Net profit (before appropriations)		150,00
Profit and Loss A/c		412,00
Fixed Deposit		517,00
Savings Deposit		450,00
Current Accounts	28,00	520,12
Borrowings from other Banks		110,00
Bills payable		10
Cash credits	812,10	
Cash in hand	160,15	
Cash with RBI	37,88	
Cash with other banks	155,87	
Money at call	210,12	
Gold	55,23	
Government Securities	110,17	
Premises	155,70	
Furniture	70,12	
Term Loans	792,88	
	25,88,22	25,88,22

1. Necessary transfer is to be made from cash with other banks to maintain 3% cash reserve on fixed, savings and current accounts with RBI.
2. Check if 30% of demand and time liabilities (i.e. total of fixed, saving and current account balances) is maintained in cash, gold or unencumbered securities. If not, identify the deficit.
3. Bills for collection Rs. 15,50,000.
4. Acceptances and endorsements Rs. 12,90,000.
5. Claims against bank not acknowledged as debt Rs. 6,60,000.
6. Depreciation charged: Premises Rs.35,10,000 Furniture Rs.10,78,000.
7. 40% of term's loans are secured by government guarantees. 20% of cash credits are unsecured. Other portion is secured by tangible assets.

Q.18: Prepare final accounts from the following information:

	Dr.		**Cr.**
Cash Balance	200	Interest on Advances	800
Balance with Other Banks	400	Interest from Investments	125
Cash with RBI	100	Commission, Exchange &	200
Investment in Govt. Securities	300	Brokerage	20
Other Approved Securities	100	Profit on sale of investments	80
Bills purchased and discounted	250	Other revenue receipts	2,000
Cash credits, Overdrafts & Demand	1,425	Share Capital	900
Loan	1,275	Statutory Reserves	650
Term Loans	1,375	Profit and Loss Account	275
Premises (Net)	250	Fixed Deposits	325
Furniture	120	Savings Deposits	125

Interest Paid	75	Current Accounts	300
Salary	35	Borrowings from other banks	100
Printing and Stationery	20	Borrowings from RBI	25
Postage and Telegram	25	Bills payable (Net)	75
Repairs	50	Interest accrued	
Interest accrued			
	6,000		**6,000**

Bills for collection 235

Additional Information: Advances made have been classified as under:

	Cash Credits Overdrafts etc.	Term loans	Bills Dis./ Pur.
Standard Assets	1,000	975	225
Sub-standard Assets	125	100	25
Doubtful-Upto one year	100	20	--
One to three years	120	50	--
More than three years	50	80	--
Loss Assets	30	50	
	1,425	1,275	250

No provision has been made so far against these assets. Doubtful assets are secured to the extent of 50% of the dues.

Q.19: (IPCC-Gr.-II-Nov.10) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

	Rs. (in crores)
Equity Share Capital	500.00
Statutory Reserve	270.000
Capital Reserve (of which Rs. 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others: Premises, furniture and fixtures	5,675.00
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

CHAPTER 5: INSURANCE COMPANY

Q.1: (IPCC-Gr.-II-May 11) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim at it would appear in the Revenue Account for the year ended 31st March, 2011.

	Direct Business Rs.	Re-insurance Rs.
Claim paid during the year	35,30,000	8,20,000
Claim received		3,20,000
Claim payable		
1st April, 2010	8,23,000	58,000
31st March, 2011	8,75,000	87,000
Claim Receivable:		
1st April, 2010	–	85,000
31st March, 2011	–	1,42,000
Expenses of Management	3,45,000	
(Includes Rs. 38,000 Surveyor's fee and Rs. 42,000 Legal expenses for settlement of claims)		

Q.2: (IPCC-Gr.-II-Nov.10) From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March 2010 find out the

(i) Net premiums earned

(ii) Net claims incurred

	Rs. Direct Business	Rs. Re-insurance
Premium:		
Received	88,00,000	7,52,000
Receivable – 01.04.2009	4,39,000	36,000
Receivable – 31.03.2010	3,77,000	32,000
Paid	6,09,000	
Payable – 01.04.2009		27,000
Payable – 31.03.2010		18,000
Claims:		
Paid	69,00,000	5,54,000
Payable – 01.04.2009	89,000	15,000
Payable – 31.03.2010	95,000	12,000
Received		2,01,000
Receivable – 01.04.2009		40,000
Receivable – 31.03.2010		38,000

Q.3: (IPCC-Gr.-II-May10) From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve A/c" for 2009.

(a) On 31.12.2008, it had reserve for unexpired risks amounting to Rs. 40 crores. It comprised of Rs. 15 crores in respect of Marine Insurance business, Rs. 20 crores in respect of Fire Insurance business and Rs. 5 crores in respect of Miscellaneous Insurance business.

(b) Ayushman Insurance Co. Ltd. creates reserves at 100% of net premium income in respct of Marine Insurance policies and at 50% of net premium income in respect of Fire and Miscellaneous income policies.

(c) During 2009, the following Business was conducted:

	(Amount in crores)		
	Marine	Fire	Miscellaneous
Premium collected from:			
(a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in respect of risks undertaken	7.00	5.00	4.00
Premium paid/payable to other insurance companies on business ceded	6.70	4.30	7.00

Q.4: (PCC-Nov. 10) Sunlife General Insurance Company submits the following information for the year ended 31st March, 2010:

Particulars	Direct Business Rs.	Reinsurance Rs.
Premium received	65,75,000	9,50,000
Premium paid	–	4,75,000
Claim paid during the year	42,50,000	5,00,000
Claim payable 1st April, 2009	6,25,000	87,000
31st March, 2010	7,18,000	60,000
Claims received	–	3,25,000
Claims receivable 1st April, 2009	–	65,000
31st March, 2010	–	1,10,000
Expenses of Management Commission	2,30,000	
On insurance accepted	1,50,000	11,000
On insurance ceded		14,000

The following additional information is also available:

(1) Expenses of management includes Rs. 35,000 surveyor's fee and Rs. 45,000 Legal Expenses for settlement of claims.

(2) Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve for unexpired risk as on 1-4-09 was Rs. 24,50,000.

You are required to prepare the Revenue Account for the year ended 31st March, 2010.

Q.5: From the following balances extracted from the books of Perfect General Insurance Company Limited as on 31.3.2011, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance business for the year ended 31.3.2011 and a Profit and Loss Account for the same period:

	Rs.		Rs.
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed assets (1.4.2010)	90,000
Provision for Taxation (as on 1.4.2010)	85,000	Income-tax paid during the year	60,000

	Fire Rs.	Marine Rs.
Outstanding claims on 1.4.2010	28,000	7,000
Claims paid	1,00,000	80,000
Reserve for unexpired risk on 1.4.2010	2,00,000	1,40,000
Premiums received	4,50,000	3,30,000
Agent's commission	40,000	20,000
Expenses of management	60,000	45,000

Re-insurance premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account:

a. Depreciation on fixed assets to be provided at 10% p.a.
b. Interest accrued on investments Rs. 10,000
c. Closing provision for taxation on 31.3.2011 to be maintained at Rs. 1,24,138.
d. Claims outstanding on 31.3.2011 were Fire Insurance Rs. 10000; Marine Insurance Rs. 15,000.
e. Premium outstanding on 31.3.2011 were Fire Insurance Rs. 30000; Marine Insurance Rs. 20,000.
f. Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
g. Expenses of management due on 31.3.2011 were Rs. 10,000 for Fire Insurance and Rs. 5,000 in respect of Marine Insurance.

Q.6: From the following details, prepare the Revenue Account, Profit and Loss Account and the Balance Sheet of Moonshine Insurance Co. Ltd., carrying on marine insurance business, for the 15 months ended 31st March, 2011:

	Rs.
Share Capital	15,00,000
Balance of Marine Fund as on 1st January, 2010	7,60,000
Unclaimed Dividends	2,400
Profit and Loss Account (Cr.)	2,40,000
Sundry Creditors	12,000
Agent’s Balance (Dr.)	1,46,400
Interest accrued but not due	8,200
Due to Re-insurers	60,000
Furniture and Fixtures (cost Rs. 12,600)	8,400
Stock of Stationery	2,500
Expenses of Management	2,20,000
Foreign Taxes and Insurance	12,300
Outstanding Premium	21,200
Donations Paid	8,600
Advance Income-tax Payments	62,000
Sundry debtors	9,000
Government of India Securities	9,20,000
Debentures of Public Bodies	1,80,000
Preliminary expenses	20,000
Share forfeiture a/c.	25,000
Shares in Limited Companies	3,60,000
State Government Securities	8,80,000
Claims less reinsurance’s	10,60,000
Premium less reinsurance’s	12,40,000
Commission paid	62,400
Interest and Dividends	2,40,000
Transfer fees received	600
Cash and Bank Balances	99,000

Outstanding claims on 31.3.11 were Rs. 1,40,000. Depreciation on furniture to be provided at 20% p.a.

Q.7: The following are the Balances of Hercules Insurance Co. Ltd. as on 31st March, 2011 : -

		(Rs. in '000)
Capital		320,00
Balances of Funds as on 1.4.2010		
Fire Insurance		800,00
Marine Insurance		950,00
Miscellaneous Insurance		218,65
Unclaimed Dividends		8,50
Amount Due to Other Insurance Companies		34,50
Sundry Creditors		72,50
Deposit and Suspense Account (Cr.)		22,80
Profit and Loss Account (Cr.)		80,40
Agents Balances (Dr.)		135,00
Interest accrued but not due (Dr.)		22,50
Due from Other Insurance Companies		64,50
Cash on Hand		3,50
Balance in Current Account with Bank		74,80
Furniture and Fixtures WDV (cost 100,00)		58,00
Stationery Stock		1,40
Expenses of Management		
Fire Insurance	280,00	
Marine Insurance	160,00	
Miscellaneous Insurance	40,00	
Others	30,00	510,00
Foreign Taxes - Marine		8,00
Outstanding premium		82,00
Donation Paid (No 80G Benefit)		10,00
Transfer Fees		1,00
I.T. Refund Received during the year		30,00
Reserve for Bad Debts		11,70
Income Tax Paid		120,00
Mortgage Loan (Dr.)		975,00
Sundry Debtors		25,00
Government Securities Deposited with RBI (Face value 35,00 Life 2 years)		37,00
Government Securities (1020,00) (at cost)		1020,00
Equity shares actively traded (fair value 48,050)		465,50
Equity Shares of Joint Stock Companies		225,00
(not actively traded securities fair value 21,500)		
Claims Less Re-insurance		
Fire	450,00	
Marine	358,90	
Miscellaneous	68,00	876,90
Premium Less Re-insurance		

Fire	1762,50	
Marine	1022,50	
Miscellaneous	262,25	3047,25
Interest & Dividends Received on Investments		58,50
Tax Deducted at Source		11,70
Commission		
Fire	500,00	
Marine	350,00	
Miscellaneous	80,00	930,00
You are required to make the following provisions:		
Depreciation on Furniture - 10% of Original Cost		
Transfer to General Reserve	1,000	
Outstanding claims as on 31.3.2011		
Fire	200,00	
Marine	50,00	
Miscellaneous	32,50	

Provision for tax @ 50%. Proposed dividends @ 20%. Provision for unexpired risks is to be made as follows:

a) On Marine Policies 100% Premium less reinsurance.

b) On Other Policies 50% Premium less reinsurance.

You are required to prepare the Revenue and Profit and Loss Account for the year ended 31.3.2011 and Balance Sheet as on that date of the company.

Q.8: The life insurance fund of Hindustan Life Insurance Co. Ltd. was Rs. 34,00,000 on 31st March, 2011. Its actuarial valuation on 31st March, 2011 disclosed a net liability of Rs. 28,80,000. An interim bonus of Rs. 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Rs. 1,10,000 and to divide the balance between the policyholders and the shareholders. Show (a) the valuation balance sheet, (b) the net profit for the two years period and (c) the distribution of the profits.

Q.9: (PCC-May 10) The life fund of a life assurance company was Rs. 8,64,80,000 as on 31.3.2010. The interim bonus paid during the intervaluation period was Rs. 14,80,000. The periodical actuarial valuation determined the net liability at Rs. 7,42,50,000. Surplus brought forward from the previous valuation was Rs. 85,00,000. Calculate the net profit for the valuation period.

Q.10: The following balances are extracted from the books of AB Life Insurance Corporation:

Life Insurance Fund (as on 31.3.2011)	Rs. 1,600 lakhs
Net Liabilities as per Valuation	Rs. 1,200 lakhs
Interim Bonus Paid	Rs. 150 lakhs

Balance of profit brought forward from previous year Rs.100 lakhs. It is now proposed to carry forward Rs. 50 lakhs.

The company declared a reversionary bonus of Rs. 30 per Rs. 1,000 and gave the policyholders an option to get the bonus in cash for Rs. 25 per Rs. 1,000. Total business of the company is Rs. 15,000 lakhs, 40% of the policyholders decided to get bonus in cash.

You are required to show:

a) The valuation Balance Sheet as on 31.3.2011.

b) The distribution statement.

Q.11: (Nov.2004) The Life Insurance Fund of an Insurance Company was on 31.3.2004 Rs. 60 lakhs before providing for dividend of Rs. 20,000 for the year 2003-04. While ascertaining the above fund figure, the following items were omitted:

i. Interest received on investments Rs. 63,000 after deduction of tax at source 10%.

ii. Bonus utilized for reduction of premium Rs. 14,000.
iii. Death claim intimated, but not yet admitted Rs. 36,000.
iv. Death claim covered under re-insurance Rs. 12,000.
v. Consideration for annuities granted Rs. 9,000.

Interim bonus for the valuation period paid was Rs. 80,000.
Net liabilities as per valuation was Rs. 50 lakhs. It is now proposed to carry forward Rs. 2,70,000.
The company declared a reversionary bonus of Rs. 12 per Rs. 1,000 and gave the policyholders an option to get the bonus in cash for Rs. 5 per Rs. 1,000. Total business of the company is Rs. 15 crores, 40% of the policyholders decided to get bonus in cash.
Prepare: i) Valuation balance sheet as on 31.3.2004. ii) Distribution statement showing the amount due to the policyholders.
Also give Journal Entries relating to reversionary bonus.

Q.12: From the following balance as at 31st March 2011 in the books of the National Life Assurance Co. Ltd. Prepare Revenue, Profit & Loss Account and a Balance Sheet.

Particulars	**Rs.**
Life Assurance Fund on 1st April 2010	34,00,000
Annuities	18,750
Surrenders	63,000
Reserve Fund	2,25,000
Deposit with the Reserve Bank	2,10,000
Indian Government Securities	10,90,000
Foreign Government Securities	75,000
Loan on Company's Policies	2,10,000
Leasehold Ground Rents	63,300
Securities on which interest is guaranteed by the Government	4,50,000
Stocks of shares of companies incorporated in India	14,50,000
Share Capital	20,00,000
Mortgages in India	14,32,500
Cash with Bankers on current account	40,500
Cash with Bankers on Deposit Accounts	20,000
Cash-in-hand	7,000
State Government Securities	7,25,000
Furniture and Fixtures	39,000
Outstanding Premium	66,000
Interest Accrued but not due	29,400
Agent's Balances (Dr.)	18,000
Outstanding Interest	17,600
Due from Re-insurance	38,500
Due to Re-insurance	47,500
Sundry Creditors	1,800
Bonus to Policy-holders	22,500
Premium less Re-insurance	6,90,000
Commission	50,500
Claims (less Re-ins.) By death	2,00,000
Claims (less Re-ins.) By Maturity	2,20,000
Consideration for Annuities granted	20,400
Claims admitted but not paid	21,750
Salaries	30,400
Director's Fees	2,400

Auditor's Fees	3,000
Law Charges	3,400
Rent Paid	3,600
Other Expenses of Management	750
Travelling Expenses	1,950
Interest & Rents received (gross)	2,64,407
Income Tax on Interest etc.	69,407
	600
Transfer Fees	
Provision for linked liabilities	2,00,000
Assets held to cover linked liabilities	2,00,000

	Rs.	Rs.
<u>Further information</u>		
Investments are held as follows:	**Book Value**	**Fair Value**
Against policyholders fund	32,90,000	35,60,000
Against shareholders fund	5,00,000	4,90,000
Interest and rent received is as follows:		
Policyholders investment	2,22,407	
Shareholders investment	42,000	
Provision for tax to be made	80,000	
Transfer to funds for future appropriation	30,000	
Proposed dividend	20,000	
Transfer from policyholders account to shareholders a/c. balance of surplus.		
Bonus allocated to policyholders (reversionary bonus)	1,00,000	
Liability against life policies on 31.3.2011 (before reversionary bonus)	34,20,000	

CHAPTER 6: ELECTRICITY COMPANY (DOUBLE ACCOUNT SYSTEM)

Q.1: From the following balances as at 31st December, 2010, prepare the Revenue Account, Net Revenue Account, Capital Account and General Balance Sheet of GIP Power and Light Co. Ltd.

	Rs.		Rs.
Balance as on 1st January, 2010		Expenses of Management	14,400
Land	1,80,000	Cost of Distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sales of Current	1,56,000
Expenditure during the year		Meter Rent	6,000
Land	6,000	Interest on Debentures	12,000
Machinery	6,000	Interim Dividend	24,000
Mains	61,200	Net Revenue A/c as on 01-01-2010	34,200
Share Capital-Ordinary Shares	6,58,800	Sundry Debtors:	
Debentures	2,40,000	For energy supplied	48,000
Sundry Creditors	1,200	Other	600
Cost of Generation	42,000	Cash Balance	6,000
Rent, Rates and Taxes	6,000	Depreciation Fund	3,00,000

Q.2: The following balances are drawn from the books of an Electricity Supply Company for the year ended 31st December, 2010, Finalise the accounts following double accounts system (you may ignore the requirements of the Indian Electricity Rules, 1956).

	Rs.
Sale of Electricity : Domestic	75,20,000
Commercial	1,80,12,000
Misc. Revenues: Meter Rent	1,88,000
Service Connections Fees	1,75,000
Public Lighting Maintenance	2,80,000
Other Revenues: Sale of Stores	50,000
Repair of Electrical Apparatus	40,000
Maintenance Expenses:	
Salaries	78,40,000
Operations & Maintenance of High Voltage Distribution	40,12,000
Operations & Maintenance of Medium & Low Voltage Distribution	36,40,000
Public Lighting	12,17,000
Consumers' Servicing	50,000
General Establishment Charges	2,85,000
Interest	12,10,000
Bad Debts	80,000
Management Charges	4,80,000
Assets as on 1-1-2010:	
Distribution Plant - High Voltage	1,80,50,000
Distribution Plant - Medium and Low Voltage	90,90,000
Public Lighting	40,00,000
General Equipment	50,00,000
Share Capital: 10,00,000 equity shares of Rs.10 each	1,00,00,000
Government Grant	10,00,000
Consumers' Contribution for Service Line	50,00,000

Loan	2,40,00,000
Reserve	40,50,000
Capital Expenditure During 2010: High Voltage Distribution Plant	14,00,000
Medium and Low Voltage Distribution Plant	15,00,000
Loan raised during 2010: 10% Electricity Board	25,00,000
Other Assets and Liabilities as on 31-12-2010:	
Sundry Creditors	15,22,000
Sundry Debtors	27,36,000
Cash-at Bank	62,97,000
Investments	82,50,000
Charge Depreciation @ 5% on all assets.	

Q.3: (PCC-May 10) The Maduri Municipal Corporation replaces part of its existing Water Mains with larger Mains at the cost of Rs. 1,50,00,000. The Original Cost of laying the old main was Rs. 30,00,000 and the present cost of laying those Mains would be three times the original cost. Calculate the amount to be capitalized.

Q.4: (PCC-May 11) Jaipur Electric Company Limited rebuilt and re-equipped a part of their power house at the cost of Rs. 85 lakhs. The part of the old power house thus superseded originally costed Rs. 50 lakhs, but if erected at the present time would cost 40% more. Rs. 3 lakhs is realized from the sale of old materials. Old materials worth Rs. 6 lakhs are used in the reconstruction and are included in the cost of Rs. 85 lakhs mentioned above.

Give necessary Journal Entries for recording the above transactions in the books of the company, indicating the allocations between amount to be capitalized and amount to be written off to Revenue Account.

Q.5: (IPCC-Gr.-II-May10) ABC Electricity Company laid down a main at a cost of Rs. 24,00,000. Some years later the company replaced by improving the plant 2/3 portion of the main at a cost of Rs. 40,00,000. The cost of material and labour having gone up by 25%. Sale of old material realized Rs. 95,000. Old material value Rs. 1,05,000 were used in renewal (included in above).

Calculate the amount to be Capitalised and show the Journal entries for recording the transaction.

Q.6: (IPCC-Gr.-II-Nov.10) The Super Electricity Company maintains accounts under the Double Accounts System. It decides to replace one of its old plant with a technologically advanced plant with a larger capacity. The plant when installed in 2000 cost the company Rs. 90,00,000, the components of materials, labour and overheads being in the ratio 5 ; 3 : 2.

It is ascertained that the costs of materials has gone up by 200% and the cost of labour has gone up by 300%. The proportion of material, labour and overheads has changed to 10 : 9 : 6.

The cost of the new plant is Rs. 2,80,00,000 and in addition, goods worth Rs. 12,60,000 have been used in the construction of the new plant. The old plant was scrapped and sold for Rs. 19,00,000.

Find out the amount to be capitalized and also the amount to be charged to revenue. Draw the necessary Ledger Accounts.

Q.7: (PCC-May 10) The following balances have been extracted at the end of March, 2010, from the books of an electricity company:

	Rs.		Rs.

Share capital	4,00,00,000	Consumer deposit	1,60,00,000
Fixed assets	10,00,00,000	Tariffs and dividend (control reserve)	40,00,000
Depreciation reserve on fixed assets	1,20,00,000	Development reserve	32,00,000
Reserve fund (invested in 8% government securities) (at par)	2,40,00,000	12% debenture	80,00,000
Contingency reserve invested in 7% state loan	48,00,000	Loan from State Electricity Board	1,00,00,000
Amount (Contributed by consumers towards cost of fixed asset)	8,00,000	Intangible assets (monthly average)	32,00,000
		Current assets (monthly average)	60,00,000

The company earned a profit of Rs. 1,12,00,000 (after tax in 2009-2010). Show how the profits have to be dealt with by the company assuming the bank rate was 10%. All workings should form part of your answers.

Q.8. (Nov.2007-PE-II) 'H' Electricity Company earned a profit of Rs. 60,00,000 (after tax) after paying Rs. 48,000 at 12% interest on debentures for the year ended 31.3.2007. The following further information is supplied to you:

	Rs.
Share Capital	2,50,00,000
Reserve Fund Investment (invested in 8% Government Securities at par)	60,00,000
Contingencies Reserve Fund Investment (7%)	25,00,000
Loan from State Electricity Board	50,00,000
Development Reserve	16,00,000
Fixed Assets	6,00,00,000
Depreciation Reserve on Fixed Assets	60,00,000
Security Deposits of customers	80,00,000
Amount contributed by consumers towards cost of Fixed Assets	4,50,000
Intangible Assets	17,50,000
Tariffs and Dividends Control Reserve	22,00,000
Monthly average of Current Assets including amount due from customers Rs. 5,00,000	36,00,000

Show, how the profit of the company will be dealt with under the provisions of the Electricity Act, assuming the bank rate of the year was 8%. All working notes should form part of your answer.

CHAPTER 7: DEPARTMENT ACCOUNTS

Q.1: FGH Ltd. has three departments I.J.K. The following information is provided for the year ended 31.3.2011:

	I Rs.	J Rs.	K Rs.
Opening stock	5,000	8,000	19,000
Opening reserve for unrealised profit	-	2,000	3,000
Materials consumed	16,000	20,000	-
Direct labour	9,000	10,000	-
Closing stock	5,000	20,000	5,000
Sales	-	-	80,000
Area occupied (sq. mtr.)	2,500	1,500	1,000
No. of employees	30	20	10

Stock of each department are valued at costs to the department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare Rs. 18,000, rent Rs. 6,000.
Prepare department trading, profit and loss account for the year ending 31.3.2011.

Q.2: (PCC-May 10) Siva Ltd. has two departments X and Y. From the following particulars prepare departmental trading accounts and general profit and loss account for the year ending 31st March, 2009:

	Dept. X Rs.	Dept. Y Rs.
Opening stock (at cost)	80,000	48,000
Purchases	3,68,000	2,72,000
Carriage inward	8,000	8,000
Wages	48,000	32,000
Sales	5,60,000	4,48,000
Purchased goods transferred		
By Dept. Y to X	40,000	–
By Dept. X to Y	–	32,000
Finished goods transferred		
By Dept. Y to X	1,40,000	–
By Dept. X to Y	–	1,60,000
Return of finished goods		
By Dept. Y to X	40,000	–
By Dept. X to Y	–	28,000
Closing stock		
Purchased goods	18,000	24,000
Finished goods	96,000	56,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 25% of the closing finished stock with each department represents finished goods received from the other department.

Q.3: (IPCC-Gr.-II-May 11) Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011.

Particulars	A	B	C	Total (Rs.)

Purchases (units)	5,000	10,000	15,000	
Purchases (Amount)				8,40,000
Sales (units)	5,200	9,800	15,300	
Selling price (Rs. per unit)	40	45	50	
Closing Stock (Units)	400	600	700	

You are required to prepare departmental trading account to Brahma Limited assuming that the rate of profit on sales is uniform in each case.

Q.4: (IPCC-Gr.-II-Nov.10) Department R sells goods to Department S at a profit of 25% on cost and Department T at 10% profit on cost. Department S sells goods to R and T at a profit of 15% and 20% on sales respectively. Department T charges 20% and 25% profit on cost to Department R and S respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealized profit are as under:

		Rs.
Department	R	54,000
Department	S	40,500
Department	T	27,000

Stock lying at different departments at the end of the year are as under:

	Deptt. R Rs.	Deptt. S Rs.	Deptt. T Rs.
Transfer from Department R	–	22,500	16,500
Transfer from Department S	21,000	–	18,000
Transfer from Department T	9,000	7,500	–

Find out the correct departmental profits after charging Manager's commission.

Q.5: A Ltd. has a factory which has two manufacturing Department X and Y. Part of the output of X Department is transferred to Y Department for further processing and the balance is directly transferred to the Selling Department. The entire production of Y Department is transferred to the Selling Department. Inter Department Stock transfers are made as follows:

X Department to Y Department at 33 1/3% over Departmental cost.

X Department to Selling at 50% over Departmental cost.

Y Department to Selling Department at 25% over departmental cost.

The following information is given for the year ending 31st March 2011:

	Department X		**Department Y**		**Selling Department**	
	M.T.	Rs.	M.T.	Rs.	M.T.	Rs.
Opening stock	60	60,000	20	40,000	50	1,45,000
Labour Charges		50,000		80,000		
Raw Material consumption	90	1,00,000	20	20,000		
Sales	-	-	-	-		5,00,000
Closing Stocks	30		50		60	

Out of the total production in X Department 30 M.T. were for transfer to the Selling Department, Apart from these stocks which were transferred during the year the balance out put and the entire opening and closing stock of X Department were for transfer to Y Department. The per ton material and labour consumption in X Department on production to be transferred directly to the Selling Department is 300 per cent of the labour and material consumption on production meant for Y Department. Prepare Department profit and Loss Account ignoring material wastages.

Q.6: Southern Store Ltd. is a retail store operating two departments. The company maintains a memorandum stock account and memorandum mark up account for each of the departments. Supplies issued to the departments are debited to the memorandum stock account of the department at cost plus the mark-up, and departmental sales are credited to this account. The mark-up on supplies issued to the departments is credited to the mark-up account for the department. When it is necessary to reduce the selling price below the normal selling price, i.e. cost plus mark-up, the reduction (mark down) is entered in the memorandum stock account and in the mark-up account. Department Y has a mark up of 33-1/3% on cost, and Department Z 50% on cost.

The following information has been extracted from the records of Southern Store Ltd. for the year ended 31st December, 2010:

	Department Y (Rs.)	Department Z (Rs.)
Stock, 1st January, 2010 at cost	24,000	36,000
Purchases	1,62,000	1,90,000
Sales	2,10,000	2,85,000

(1) The stock of Department Y at 1st January 2010 includes goods on which the selling price has been marked down by Rs. 510. These goods were sold in January, 2010 at the reduced price.

(2) Certain goods purchased in 2010 for Rs.2,700 for department Y, were transferred during the year to Department Z, and sold for Rs. 4,050. Purchase and sale are recorded in the purchases of department Y and the sales of department Z respectively, but no entries in respect of the transfer have been made.

(3) Goods purchased in 2010 were marked down as follows:

	Department Y (Rs.)	Department Z (Rs.)
Cost	8,000	21,000
Mark down	800	4,100

At the end of the year there were some items in the stock of department Z, which had been marked down to Rs. 2,300. With this exception all goods marked down in 2010 were sold during the year at the reduced prices.

(4) During stock taking at 31st December 2010 goods which had cost Rs.240 were found to be missing in the department Y. It was determined that the loss should be regarded as irrecoverable.

(5) The closing stock in both departments is to be valued at cost for the purpose of the annual accounts.

You are requested to prepare for each department for the year ended 31st December 2010:-

(a) a trading Account, (b) a Memorandum Stock Account, `and (c) a Memorandum Mark up Account.

CHAPTER 8: BRANCH ACCOUNTS

Q.1: The B & Co. invoiced goods to its Branch at Cost. Head office paid all the branch expenses from its Bank except petty cash expenses, which were met by the Branch. All the Cash collected by the branch was banked on the same day to the credit of the Head Office. The following is a summary of the transactions entered into at the branch during the year ended 31.12.2010.

	Rs.		Rs.
Stock 1.1.2010	7,000	Sundry Expenses	800
Debtors 1.1.2010	12,600	Cash sale	17,500
Petty Cash 1.1.2010	200	Credit sale	28,400
Goods sent from H.O.	26,000	Allowances to customer	200
Goods returned to H.O.	1,000	Discount to customer	1,400
Bad debts	600	Cash Received from Debtors	28,500
Goods returned by customer	500	Stock 31.12.2010	6,500
Salaries & Wages	6,000	Debtor 31.12.2010	9,800
Rent & Rates	1,200	Petty cash 31.12.2010	100

Prepare: 1. Branch a/c (Debtor Method); 2. Memorandom Tr. & P & L a/c; 3. Accounts by Stock Debtor Method.

Q.2: T of Calcutta has a branch at Dibrugarh. The branch does not maintain separate books of accounts. The branch has the following assets and liabilities on 31st August, 2011 and 30th September, 2011:

	(in Rs.) 31st August, 2011	(in Rs.) 30th September, 2011
Stock of tea	1,80,000	1,50,000
Advance to suppliers	5,00,000	4,50,000
Bank balance	75,000	1,00,000
Prepaid expenses	10,000	10,000
Outstanding expenses	13,000	11,000
Creditors for purchases	3,00,000	to be ascertained

During the month, Dibrugarh branch:

(a) received by electronic mail transfer Rs. 10,00,000 from Calcutta head office;
(b) purchased tea worth Rs. 12,00,000;
(c) sent tea costing Rs. 12,30,000 to Calcutta, freight of Rs. 80,000 being payable at the destination by the receiver;
(d) spent Rs. 25,000 on office expenses;
(e) paid Rs. 3,00,000 as advance to suppliers;
(f) paid Rs. 6,50,000 to suppliers in settlement of outstanding dues.

In addition, T informs you that the Calcutta office had directly paid Rs. 3,50,000 to Dibrugarh suppliers by cheques drawn on bank accounts in Calcutta during the month.

T informs you that for the purpose of accounting, Dibrugarh branch is not treated as an outsider. He wants you to write the detailed accounts relating to the transactions of the Dibrugarh branch as would appear in the books of Calcutta Head Office.

Q.3: (IPCC-Gr.-II-Nov.10) Following is the information of the Jammu branch of Best Ltd., New Delhi for the year ending 31st March 2010 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other informations:

	Rs.
Stock as on 01-04-2009	2,20,000
Goods sent during the year	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain (i) the profit earned by the branch during the year (ii) branch stock reserve in respect of unrealized profit.

Q.4: (PCC-May 11) N Limited has a retail branch at Noida. Goods are sold to customers at cost plus 100%. The wholesale price is cost plus 80%. Goods are invoiced to Noida at wholesale price. From the following particulars, find out the profit made by the Head Office and Noida Branch for the year ended 31st March, 2010 using invoice method.

	Head Office	Noida
Stock on April 1, 2009	50,000	–
Purchases	3,00,000	–
Goods sent to branch (at invoice value)	1,08,000	–
Sales	3,06,000	1,00,000
Expenses	90,000	4,000

Sales at Head Office are made only on wholesale basis and sales at branch are made only to customers. Stock at branch is valued at invoice price.

Q.5: (IPCC-Gr.-II-May 11) XYZ Company is having it's Branch at Kolkata. Goods are invoiced to the branch at 20% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses which are met by the Branch Manager. From the following particulars prepare branch account in the books of Head Office.

	Rs.		*Rs.*
Stock on 1st April 2010 (invoice price)	30,000	Expenses paid by head office:	
Sundry Debtors on 1st April, 2010	18,000	Rent	1,800
Cash in hand as on 1st April, 2010	800	Salary	3,200
Office furniture on 1st April, 2010	3,000	Stationery & Printing	800
Goods invoiced from the head office (invoice price)	1,60,000	Petty exp. Paid by the branch	600
Goods return to Head office	2,000	Depreciation to be provided on branch furniture at 10% p.a.	
Goods return by debtors	960		
Cash received from debtors	60,000	Stock on 31st March, 2011 (at invoice price)	28,000
Cash Sales	1,00,000		
Credit sales	60,000		
	51,00,000		51,00,000

Q.6: (IPCC-Gr.-II-May10) Ram Limited of Chennai has a branch at Nagpur to which office, goods are invoiced at cost plus 25%. The branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the branch has to remit all cash received into the Head Office Bank Account at Nagpur.

	Rs.
Goods received from Head Office at invoice price	1,20,000
Returns of Head Office at invoice price	2,400
Stock in Nagpur Branch on 1.1.2009	12,000
Sales during the year – Cash	40,000
Credit	72,000
Debtors at Nagpur Branch	14,400
Cash received from Debtors	64,000
Discounts allowed to Debtors	1,200
Bad Debts during the year	800
Sales Returns at Nagpur Branch	1,600
Salaries and Wages at Branch	12,000
Rent, Rates and Taxes at Branch	3,600
Office expenses at Nagpur Branch	1,200
Stock at Branch on 31.12.2009 at invoice price	24,000

Q.7: (May 2006) Concept & Co., with its Head Office at Mumbai has a branch at Nagpur. Goods are invoiced to the Branch at cost plus $33^{1}/_{3}$%. The following information is given in respect of the branch for the year ended 31st March, 2006 :

	Rs.
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2005 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2005	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2006 (Invoice price)	48,000
Branch debtors balance on 31.3.2006	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

(i) Nagpur Branch Stock Account
(ii) Nagpur Branch Debtors Account
(iii) Nagpur Branch Adjustment Account

Also compute shortage of Stock at Branch, if any.

Q.8: Pass the journal entries in the books of head office and branch for the following adjustments:

1. Cash in transit, Rs. 5,000

2. Goods sent by head office in transit Rs. 10,000
3. Depreciation on a fixed asset whose account is maintained in the books of head office, Rs. 400.
4. Amount to be charged by head office for its service rendered to branch Rs.1,200.
5. Head Office expenses Rs. 3500 allocated to the Branch, but not recorded in the Branch Books.
6. Salary of general sales manager paid by the branch while general sales manager was on a visit to the branch, Rs.980.
7. Goods costing and invoiced at Rs.10,850 are sent to branch but the branch receives goods costing Rs. 10,670 only the remaining goods having been stolen somewhere in transit. Branch has passed entry only for Rs. 10,670 and disclaims any liability for the balance.
8. H. O. collected Rs. 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

Q.9: (May 2003): Show adjustment journal entry in the books of Head Office at the end of April, 2003 for incorporation of inter branch transactions assuming that only Head Office maintains different branch accounts in its books.

A. Delhi Branch:

1. Received goods from Mumbai – Rs. 35,000 and Rs. 15,000 from Kolkata.
2. Sent goods to Chennai – Rs. 25,000, Koktata – Rs. 20,000.
3. Bill receivable received – Rs. 20,000 from Chennai.
4. Acceptance sent to – Mumbai – Rs. 25,000, Kolkata – Rs. 10,000.

B. Mumbai Branch (apart from the above):

5. Received goods from Kolkata – Rs. 15,000, Delhi – Rs. 20,000
6. Cash sent to Delhi – Rs. 15,000, Kolkata – Rs. 7,000

C. Chennai Branch (apart from the above):

7. Received goods from Kolkata – Rs. 30,000
8. Acceptances and cash sent to Kolkata - Rs. 20,000 and Rs. 10,000 respectively.

D. Kolkata Branch (apart from the above):

9. Sent goods to Chennai – Rs. 35,000
10. Paid cash to Chennai - Rs. 15,000
11. Acceptances sent to Chennai – Rs. 15,000

Q.10: Sri Sundaram commenced business on 1st April, 2010 with Head Office at Madras and a branch at Nagpur. Purchases were made exclusively by the head office where the goods were processed before sale. There was no loss or wastage in processing. Only the processed goods received from head office were handled by the branch and these were charged thereto at processed cost plus 10%.

All sales, whether by head office or by the branch, were at a uniform gross profit of 25% on cost. Following is the Trial Balance of Sri Sundaram as on 31st March, 2011:

Head Office	**Dr.(Rs.)**	**Cr.(Rs.)**
Capital		62,000
Drawings	11,000	
Purchases	3,93,900	
Cost of Processing	10,100	
Sales		2,56,000
Goods sent to Branch		1,84,800
Administrative Expenses	27,800	
Selling Expenses	10,000	
Debtors	61,920	
Creditors		1,20,280
Branch Current Account	77,960	
Bank Balance	30,400	
	6,23,080	6,23,080
Branch Office	**Dr.(Rs.)**	**Cr.(Rs.)**
Sales		1,64,000
Goods received from Head Office	1,76,000	
Administrative Expenses	3,000	

Selling Expenses	1,240	
Debtors	22,720	
Creditors		2,160
H.O. Current Account		52,300
Bank Balance	15,500	
	2,18,460	2,18,460

The following further information is also available.

(i) Goods sent by head office to the Branch in March, 2011 at Rs.8,800 were not received by the branch until April, 2011.

(ii) A remittance of Rs.16,860 from the branch to head office was not received until April, 2011.

(iii) Stock taking at the branch disclosed a shortage of goods of Rs.4,000 (at selling price).

(iv) Cost of unprocessed goods at head office on 31st March, 2011 was Rs.20,000.

Prepare Trading and Profit & Loss Account in Columnar form and Balance Sheet of the business as a whole as on 31st March, 2011.

Q.11: (Nov. 2005)M/s. Shah & Co. Commenced business on 1.4.2004 with Head Office at Mumbai and a Branch at Chennai. Purchases were made exclusively by the Head Office, where the goods were processed before sale. There was no loss or wastage in processing.

Only the processed goods received from Head Office were handled by the Branch. The goods were sent to branch at processed cost plus 10% . All sales, Whether by Head Office or by the Branch, were at uniform gross profit of 25% on their respective cost.

Following is the Trial Balance as on 31.3.2005.

	Head Office		**Branch**	
	Dr. (Rs.)	**Cr. (Rs.)**	**Dr. (Rs.)**	**Cr. (Rs.)**
Capital		3,10,000		
Drawings	55,000			
Purchases	19,69,500			
Cost of processing	50,500			
Sales		12,80,000		8,20,000
Goods sent to Branch		9,24,000		
Administrative expenses	1,39,000		15,000	
Selling expenses	50,000		6,200	
Debtors	3,09,600		1,13,600	
Branch Current A/c	3,89,800			
Creditors		6,01,400		10,800
Bank Balance	1,52,000		77,500	
Head Office Current account				2,61,500
Goods received from H.O.			8,80,000	
	31,15,400	31,15,400	10,92,300	10,92,300

Following further information is provided :

(i) Goods sent by Head Office to the Branch in March, 2005 of Rs.44,000 were not received by the Branch till 2.4.2005.

(ii) A remittance of Rs.84,300 sent by the Branch to Head Office was also similarly not received upto 31.3.2005.

(iii) Stock taking at the Branch disclosed a shortage of Rs.20,000 (at selling price to the branch)

Cost of unprocessed goods at Head Office On 31.3.2005 was Rs.1,00,000. Prepare Trading and Profit and Loss account in columnar form and Balance Sheet of the Business as a whole as at 31.3.2005.

Q.12: On 31st March, 2010, the following Ledger balances have been extracted from the books of Washington branch office:

Ledger A/c	$
Building	180
Stock as on 1.4.2009	26
Cash and Bank Balances	57
Purchases	96
Sales	110
Commission receipts	28
Debtors	46
Creditors	65

You are required to convert above Ledger balances into Indian Rupees. Use the following rates of exchange:

Opening Rate $ = 46

Closing Rate $ = 50

Average Rate $ = 48

For Fixed Assets $ = 42

Q.13: The New York Branch of Fine Textiles Limited, Delhi sent the following Trial Balance as on 31st December, 2010.

	$	$
Fixed Assets	1,20,000	
Stock, 1st January, 2010	56,000	
Goods from H.O.	3,20,000	
Sales		4,20,000
Expenses	25,000	
Debtors and Creditors	24,000	17,000
Cash at Bank	6,000	
H.O. Account		1,14,000
	5,51,000	5,51,000

In the H.O. Books the Branch Account stood as shown below:

Dr. **New York Branch Account** **Cr.**

	Rs.		Rs
To Balance B/d	10,05,000	By Cash	26,08,000
To Goods sent to Branch	24,63,000	By Balance C/d	8,60,000
	34,68,000		34,68,000

Goods are invoiced to the Branch at cost plus 10% and Branch has instruction to sell at invoice price plus 25%. Fixed assets were acquired on 1st January 2005 when $ 100 = Rs.380.

Rates of exchange were: 1st Jan,2010 $100=Rs.760 31st December, 2010 $100 = Rs.770 Average $100 = Rs.750

Fixed assets have to be depreciated by 10% and the Branch Manager is entitled to commission of 5% on the profit of the Branch (on invoice price basis).

<u>You are required to</u>:

Convert the Branch Trial Balance into rupees and prepare the Branch Trading and Profit and Loss Account and the Branch Account.

Q.14: (May 08-PE-II) The Washington branch of XYZ Limited, Mumbai sent the following trial balance as on 31st December, 2007:

	$	$
Head Office A/c	__	22,800
Sales	__	84,000
Debtors and Creditors	4,800	3,400
Machinery	24,000	__
Cash at bank	1,200	__
Stock, 1 January, 2007	11,200	__
Goods from H.O.	64,000	__
Expenses	5,000	__
	1,10,200	1,10,200

In the books of head office, the Branch a/c stood as follows:

Washington Branch A/c

	Rs.		Rs.
To Balance b/d	8,10,000	By Cash	28,76,000
To goods sent to branch	29,26,000	By Balance c/d	8,60,000
	37,36,000		37,36,000

Goods are sent to the branch at cost plus 10% and the branch sell goods at Invoice price plus 25%. Machinery were acquired on 31st January, 2002, when $ 1.00 = Rs. 40.

Rates of Exchange were:

1st January, 2007 $ 1.00 = Rs. 46

31st December, 2007 $ 1.00 = Rs. 48

Average $ 1.00 = Rs. 47

Machinery is depreciated @ 10% and the Branch Manager is entitled to a commission of 5% on the profit of the branch.

You are required to:

(i) Prepare the branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency and prepare Branch Trading & Profit and Loss A/c and the Branch A/c in the books of head office.

Q.No.15: EG Company Limited, doing manufacturing business, exports some of its products through an overseas branch whose currency is "Florin" (FL), which carries out the final assembly operations before selling the goods. The trial balances of the Head Office and Branch on 30th June, 2011, were as follows:

	Head Office		**Branch**	
	Dr. Rs.	**Cr. Rs.**	**Dr. FL**	**Cr. FL**
Freehold building at cost	14,000		63,000	
Debtors/Creditors	8,900	9,500	36,000	1,560
Sales		1,04,000		4,32,000
Authorised and issued capital		40,000		
Components sent to Branch		35,000		
Head Office/Branch Accounts	60,100			5,04,260
Branch Cost of Sales			3,60,000	
Depreciation provisions machinery		1,500		56,700
Head Office Cost of Sales (including goods to branch)	59,000			
Administration Costs	15,200		18,000	
Stock on 30th June, 2011	28,900		11,520	
Profit and Loss Account		2,000		
Machinery at cost	6,000		1,26,000	
Remittances		28,000	2,72,000	
Balance at Bank	4,600		79,200	
Selling and distribution cost	23,300		28,800	

	2,20,000	2,20,000	9,94,520	9,94,520

The following adjustments are to be made:

(1) The cost of sales figures includes a depreciation charge of 10% per annum on cost of machinery.

(2) A provision of Rs.300 for unrealized profit in branch stock is to be made.

(3) On 26th June, 2011, the branch remitted 16,000 \`FL'; these were received by Head Office on 4th July, and realised Rs.1,990.

(4) During May a branch customer in error paid the Head Office for goods supplied. The amount due was 320 FL, which realised Rs.36. It has been correctly dealt with by Head Office but not yet entered in the branch books.

(5) A provision has to be made for a commission of 5% of the net profit excluding exchange gain on the branch after charging such commission, which is due to the branch manager.

The rates of the exchange were: At 1st July, 2010 10 \`FL' = Re.1 At 30th June, 2011 8 \`FL' = Re.1 Average for the year 9 \`FL' = Re.1; On purchase of Building and Machinery 7 \`FL' = Re.1

You are required to prepare for internal use:

(a) Detailed operating accounts for the year ended 30th June, 2011.

(b) Combined head office and branch balance sheet as at 30th June, 2011, and

The branch account in the head office books in both Rupees & \`Florins', the opening balance on 1st July, 2010, being Rs.25,136 (1,89,260 \`FL'). Taxation is to be ignored.

CHAPTER 9: PARTNERSHIP ACCOUNTS:DISSOLUTION

Q.1: (CA Exam) X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of capital. Following is the Balance sheet of the firm as at 31st March, 2011:

Balance Sheet as at 31st March, 2011

Liabilities	Rs.	Assets	Rs.
Partners' Capitals:		Fixed Assets	4,50,000
X	4,00,000	Stock in trade	3,50,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	30,000
General Reserve	90,000		
Sundry Creditors	3,40,000		
	13,30,000		13,30,000

Partners of the firm decided to dissolve the firm on the above said date.

Fixed assets realized Rs. 5,40,000 and book debts Rs. 4,20,000.

Stocks were valued at Rs. 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to Rs. 6,000.

You are required to prepare:

(i) Realisation account; (ii) Partners capital account; and (iii) Cash account.

Q.2: (CA Exam) P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2011 is as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts:			Plant & Machinery	1,08,000
P	1,20,000		Fixtures	24,000
Q	48,000		Stock	60,000
R	24,000	1,92,000	Sundry debtors	48,000
Reserve fund		60,000	Cash	40,000
Creditors		28,000		
		2,80,000		2,80,000

They decided to dissolve the firm. It was found that a credit purchase of Rs. 20,000 in January, 2011 had not been recorded in the books of the firm which R agreed to Pay at 10% discount. P took over Fixtures at Rs.18,000.

The following are the amounts realized from the assets:	Rs.
Plant and Machinery	1,22,000
Stock	64,000
Sundry debtors	44,400

Creditors allowed a discount of 10% and realization expenses amounted to Rs. 4,000. A bill for Rs. 4,100 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

(a) Realisation account (b) Partners capital account (c) Cash account.

Q.3. (PCC-May 10) A, B and C are partners A became insolvent on 15.4.2010. The capital account balance of partner B is on the debit side. Partner B is solvent. Should partner B bear the loss arising on account of the insolvency of partner A?

Q.4: (CA Exam): The following Balance Sheet of M/s. Ideal Works in which A, B and C were partners sharing profits and losses in the ratio of 6:3:5.

Balance Sheet of M/s. Ideal Works as at 31-3-2011

Liabilities	Rs.	Assets	Rs.
A's Capital Account	25,000	Land and Building	10,000
C's Capital Account	15,000	Furniture	5,000
A's Current Account	1,000	Stock-in-Trade	23,100
C's Current Account	500	Sundry Debtors	30,000
Sundry Creditors	40,000	Cash at Bank	12,500
Loan on mortgage of Land & Building	4,000	B's Current Account	4,900
	85,500		**85,500**

It was decided to dissolve the partnership as on the date of the Balance Sheet. The assets of the firm was realised as under:

Land and Building Rs. 6,000; Furniture Rs. 2,000; Stock-in-trade Rs. 15,000 and Sundry Debtors Rs. 20,000. The expenses of realisation amounted to Rs. 2,000. The Sundry Creditors agreed to receive 75 paise in a rupee in full satisfaction of their claim. Loan on mortgage was paid. It was ascertained that B had become insolvent. B's estate had contributed only 50 paise in a rupee.

Write up the Realisation Account, Bank Account, Capital Account and Current Account of the partners following the rule given in Garner vs. Murray.

Q.5: (CA Exam): Ajay, Vijay, Ram and Shyam are partners in a firm sharing profits and losses in the ratio 4:1:2:3. The Balance Sheet as on 31st March, 2011:

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		3,00,000	Sundry Debtors 3,50,000	
Capital A/cs:			Less: Doubtful Debts 50,000	3,00,000
Ajay	7,00,000		Stocks	2,00,000
Shyam	3,00,000	10,00,000	Cash in hand	1,40,000
			Other Assets	3,10,000
			Capital A/cs:	
			Vijay	2,00,000
			Ram	1,50,000
		13,00,000		**13,00,000**

On 31st March, 2011 the firm is dissolved and the following points are agreed upon:

- Ajay is to take over sundry debtors at 80% of book value.
- Shyam is to take over the stocks at 95% of the value and
- Ram is to discharge sundry creditors.

Other assets realise Rs. 3,00,000 and the expenses of realisation come to Rs. 30,000. Vijay is found insolvent and Rs. 21,900 is realised from his estate.

Prepare realization account and Capital accounts of the partners. Show also the cash a/c. The loss arising out of capital deficiency may be distributed following the decision in Garner Vs Murray.

Q.6: (CA Exam): Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profit and losses in the ratio of 3:2:1:1. They decide to dissolve the partnership on the basis of the following balance sheet as on 30th April, 2011.

	Rs.		Rs.

Capital account:			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	60,000	1,60,000	Stock		1,00,000
General reserve		56,000	Debtors		40,000
Capital reserve		14,000	Cash		8,000
Sundry creditors		20,000	Capital overdrawn:		
Mortgage loan		80,000	Venus	10,000	
			Pluto	12,000	22,000
		3,30,000			3,30,000

i) The assets were realised as under:

Debtors	Rs. 24,000
Stock	Rs. 60,000
Furniture	Rs. 16,000
Premises	Rs. 90,000

ii) Expenses of dissolution amounted to Rs. 4,000.

iii) Further creditors of Rs. 12,000 had to be met.

iv) General reserve unlike capital reserve was built up by appropriation of profits.

You are required to draw the realisation account, partners' capital accounts and the cash account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray.

Q.7: (IPCC-Gr.-II-Nov.10) A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 2010 when their Balance Sheet was as under:

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	–	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		3,06,000

Following information is given to you:

(i) A cheque for Rs. 4,300 received from debtor was not recorded in the books and was misappropriated by C.

(ii) Investments costing Rs. 5,400 were sold by C at Rs. 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.

(iii) A creditor agreed to take over investments of the book value of Rs. 5,400 at Rs. 8,400. The rest of the creditors were paid off at a discount of 2%.

(iv) The other assets realized as follows:

Building	105% of book value
Stock	Rs. 78,000
Investments	The rest of investments were sold at a profit of Rs. 4,800
Debtors	The rest of the debtors were realized at a discount of 12%

(v) The bills payable were settled at a discount of Rs. 400.

(vi) The expenses of dissolution amounted to Rs. 4,900.

(vii) It was found out that realization from C's private assets would only be Rs. 4,000.

Prepare the necessary Ledger Accounts.

Q.8: (PCC-May 10) Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolve partnership. The share Profit in the ratio of 5 : 3 : 2 :

Liabilities	Rs.	Assets	Rs.
Creditors	80,000	Plant and machinery	60,000
Loan A/c – Amar	20,000	Premises	80,000
Capital A/c – Amar	1,00,000	Stock	60,000
Akbar	30,000	Debtors	1,20,000
Antony	90,000		
	3,20,000		3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realized, viz.

April 15, 2010 Rs.60,000, May 1, 2010 Rs.1,46,000, May 31, 2010 Rs.94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the Cash account and Partner's capital account.

Q.9: (CA Exam): The firm of LMS was dissolved on 31.3.2011, at which date its Balance Sheet stood as follows:

Liabilities	Rs.	Assets	Rs.
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital:			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		47,00,000

Partners share profit equally . A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities . Their fees, which are to include all expenses, are fixed at Rs. 1,00,000. No loss is expected on realisation since fixed assets include valuable land building. Realizations are:

S. No.	Amount in Rs.
1	5,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in ` Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

Q.10: (CA Exam): A, B and C were partners in business, sharing profits & losses in the ratio 2:1:1. Their Balance sheet as at 31.3.2011 is as follows:

Balance Sheet as at 31st March, 2011

(Figures in Rs. '000)

Liabilities	**Rs.**	**Assets**	**Rs.**
Fixed capital:		Fixed Assets	300
A 200		Investments	50
B 100		Current Assets:	
C 100	400	Stock 100	
Current Accounts:		Debtors 60	
A 40		Cash & Bank 150	310
B 20	60		
Unsecured Loans	200		
	660		**660**

On 1.4.2011, it is agreed among the partners that BC (P) Ltd., a newly formed company with B and C having each taken up 100 shares of Rs. 10 each will take over the firm as a going concern including goodwill but excluding cash & bank balances. The following points are also agreed upon:

(a) Goodwill will be valued at 3 years purchase of super profits.

(b) The actual Profit for the purpose of goodwill valuation will be Rs. 1,00,000.

(c) Normal rate of return will be 15% on fixed capital.

(d) All other assets and liabilities will be taken over at book values.

(e) The purchase consideration will be payable partly in shares of Rs.. 10 each and partly in cash. Payment in cash being to meet the requirement to discharge A, who has agreed to retire.

(f) B and C are to acquire equal interest in the new company.

(g) Expenses of liquidation Rs. 40,000.

You are required to prepare the necessary Ledger Accounts.

Q.11: R, K and C have carried on business as drawers for twenty years and on 30th June, 2011. The Balance Sheet was as under:

Liabilities		Rs.	Assets	Rs.
Bank Overdraft		20,000	Plant and Machinery	32,000
Creditors for supplies		30,000		
Creditors for expenses		18,000	Premises	50,000
Capital Accounts(fixed):	R 30,000			
	K 20,000		Sundry Debtors	48,000
	C 20,000	70,000	Stock in trade	40,000
Current Accounts:	R 16,000		Cash and Bank Balances	8,000
	C 24,000	40,000		
		1,78,000		1,78,000

The profits and losses were shared in the ratio of fixed capitals. On 30th June, 2011, the Partners agreed that due to old age R would retire from the firm when its goodwill will be valued and proportionate share credit to R, It was also decided that premises appearing in the books at cost would be valued at their market value of Rs. 80,000 and allotted to R in satisfaction of his dues. Any excess or deficit would be settled in cash. It was also agreed that the stock in trade and debtors would be taken at 90% of the book value and an unrecorded liability of bonus of Rs. 10,000 to staff brought into books. Goodwill of the firm was to be taken at Rs. 70,000.

After R's retirement, the business was carried on by K and C sharing profits and losses equally and till 30th September, 2011, the firm had made a net profit of Rs.30,000 after crediting each partner's capital account with Rs.500 p.m. as salary. No drawings were made by the partners in the quarter.

K and C now find that they cannot continue the business and decided to sell it to a private limited company and from 1st October, 2011. The company is to take over the entire business for a consideration of Rs.90,000 which the vendors agree to make 40% in 14% secured debentures and the balance in cash. To enable the company to pay the vendors and also leave it with a working capital of Rs. 20,000, the company make issue of equity share of Rs.10 each at par.

Show the Balance Sheet of the company after the takeover of the business of K and C.

Q.12: (Nov. 07) X and Y are partners sharing profits and losses in the ratio of 3:2. On 30th September, 2006 they admitted Z as a partner. The new profit sharing ratio agreed was 2:2:1.
At the time of admission Z brought in a fixture valued at Rs. 6,000 and a machinery worth Rs. 24,000. No accounting entry was passed for the fixture brought in by partner Z in the books of the firm.
Also at the time of admission the valuation of goodwill was made. The value of goodwill of X and Y was decided at Rs. 40,000 and value of goodwill of partner Z was fixed at Rs. 20,000. No effect was given to the goodwill value in the books of the firm.
On 31.3.2007, it was decided that partner X would retire and the other partners viz. Y and Z would continue the business of the firm by converting it into a company called YZ Ltd., with equal shareholding in the company.
The partners agreed as below:

(i) The goodwill of the firm shall be fixed at Rs. 80,000. Necessary effect for goodwill value not recorded earlier shall be given. The present goodwill value being Rs. 80,000 shall be reflected in the books of the company.
(ii) All the assets and liabilities of the firm shall be taken over by the company.
(iii) partner X would take motor car of the firm at a value of Rs. 7,400.
(iv) A plant owned by the firm is sold for Rs. 6,000.
(v) the profit of the firm upto 30.9.2006 was Rs. 44,000.
(vi) Partner X agreed to leave Rs. 90,000 as loan with the firm in return for 12% interest per annum.

Following is the Trial Balance of the firm as on 31.3.2007:

Particulars	Dr. Rs.	Cr. Rs.
Capital Account:		
X	–	80,000
Y	–	50,000
Z	–	24,000
Drawings Account:		
X	22,000	–
Y	20,000	–
Z	9,600	–
Sundry Debtors	70,000	–
Sundry Creditors	–	32,000
Plant (Book value of plant sold Rs. 8,000)	46,000	–
Fixtures	14,000	–
Stock	24,000	–
Motor Car	5,400	–
Cash at bank	34,600	–
Profit and Loss A/c (for the year)	–	59,600
	2,45,600	2,45,600

You are required to prepare:

(i) Goodwill Adjustment Account
(ii) Profit and Loss Appropriation Account
(iii) Partners' Capital Accounts

(iv) Balance Sheet of YZ Ltd. after conversion.

Q.13: (PCC-Nov.08) 'S' and 'T' were carrying on business as equal partners. Their Balance Sheet as on 31st March, 2008 stood as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint life policy	47,500
Bank overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		18,40,000

The operations of the business were carried on till 30th September, 2008. S and T both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by Rs. 50,000, Bills payable by Rs. 11,500 and Bank overdraft by Rs. 75,000. The Joint Life policy was surrendered for Rs. 47,500 on 30th September, 2008. Stock was valued at Rs. 3,17,000 and debtors at Rs. 3,25,000 on 30th September, 2008. The other items remained the same as on 31st March, 2008.

On 30th September, 2008 the firm sold its business to ST Ltd. The value of goodwill was estimated at Rs.5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2008. The ST Ltd. paid the purchase consideration in equity shares of Rs.10 each. You are required to prepare a Realization Account and Capital accounts of the partners.

Q.14: (Nov. 2006) 'X' and 'Y' carrying on business in partnership sharing Profits and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31.3.2006, when the firm's position was as follows :

Liabilities	Rs.	Assets	Rs.
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1,00,000	Furniture	40,000
Sundry Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	3,10,000		3,10,000

The arrangement with X Limited Company was as follows :

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book values less 15%.

(iii) The goodwill of the firm was valued at Rs. 40,000.

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the books debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of Rs. 10 each at a premium of Rs. 2 per share.

The company collected all the amounts from debtors. The creditors were paid off less by Rs. 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

Q.15: (CA Exam): Neel, Neha and Neeraj are partners in a firm M/s NHJ & Co. sharing profits and losses in the ratio of 3:2:1. They are also entitled to interest on loan at 10% p.a., but not interest on capital.

The partners decided to dissolve the firm on 31.3.2011. The following is their balance sheet which was drawn upto 31.12.2010.

M/s NHJ & Co.

Liabilities		**Rs.**	**Assets**	**Rs.**
Capital a/c:			Building	2,10,000
Neel	1,68,000		Furniture	35,000
Neha	1,15,500	2,83,500	Motor cycle	1,40,000
Neel's loan		77,000	Stock	1,92,500
Sundry creditors		2,80,000	Sundry debtors	1,40,000
Bank overdraft		1,05,000	Neeraj's capital a/c	28,000
		7,45,500		7,45,500

Between the balance sheet date and the date of dissolution, purchases amounted to Rs. 1,05,000 and sales Rs. 1,57,500. In addition to payments made to creditors, a sum of Rs. 42,000 and Rs. 21,000 were paid on account of salaries and general expenses.

Each partner withdrew Rs. 2,800 per month. On 31.3.2011, debtors, creditors and stock amounted to Rs. 2,10,000, Rs. 2,45,500 and Rs. 1,57,500 respectively.

During course of proceedings the partners decided to transfer the entire business to a private limited company with all assets, liabilities and partner's loan for a consideration of Rs. 3,15,000. Dissolution expenses amounted to Rs. 9,800 and were borne by Neel.

Prepare necessary ledger accounts, profit and loss account, partners capital account and balance sheet as at 31.3.2011 of the firm M/s. NHJ & Co. Also ascertain the amount of profit on realisation.

Q.16: (IPCC-Gr.-II-May10) P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3 : 1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2 : 1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing Profits and Losses in the ratio of 3 : 2 : 1. The Balance Sheets of two firms on the above date are as under:

(Figures in Rs.)

Liabilities	P & Co.	R & Co.	Assets	P & Co.	R & Co.
Capitals:			Fixed Assets:		
P	2,40,000	–	Building	50,000	60,000
Q	1,60,000	2,00,000	Plan & Machinery	1,50,000	1,60,000
R	–	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	Current Assets:		
Sundry Creditors	1,20,000	1,16,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	–	1,00,000	Sundry Debtors	1,60,000	2,00,000
Bank Overdraft	80,000	–	Bank Balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	1,00,000	–
	6,50,000	6,66,000		6,50,000	6,66,000

The amalgamated firm took over the business on the following terms:

(a) Building of P & Co. was valued at Rs. 1,00,000.

(b) Plant and Machinery of P & Co. was valued at Rs. 2,50,000 and that of R & Co. at Rs. 2,00,000.

(c) All stock in Trade is to be appreciated by 20%.

(d) Goodwill valued of P & Co. at Rs. 1,20,000 and R & Co. at Rs. 60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the Profit sharing ratio.

(f) Provisions for doubtful debts has to be carried forward at Rs. 12,000 in respect of debtors of P & Co. and Rs. 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and Capital accounts of the partners in the books of old firms.

Q.17: (IPCC-Gr.-II-May 11) A and B are partners of AB & Co sharing Profits and Losses in the ratio of 2;1 and C and D are partners of CD & Co sharing Profits and Losses in the ratio of 3 : 2. On 1st April 2011 they decided to amalgamate and form a new firm M/s. AD & Co wherein all the partners of the both the firm would be partners sharing profits and losses in the ratio of 2 : 1 : 3 : 2 respectively to A, B, C and D.

Liabilities	*AB & Co. Rs.*	*CD & Co. Rs.*	*Assets*	*AB & Co. Rs.*	*CD & Co. Rs.*
Capitals			Building	75,000	90,000
A	1,50,000		Machinery	1,20,000	1,00,000
B	1,00,000		Furniture	15,000	12,000
C		1,20,000	Stock	24,000	36,000
D		80,000	Debtors	65,000	78,000
Reserve	66,000	54,000	Due from CD & Co.	47,000	
Creditors	52,000	35,000	Cash at Bank	18,000	15,000
Due to AB & Co.		47,000	Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

(a) Building was taken over at Rs. 1,00,000 and Rs. 1,25,000 of AB & Co. and CD & Co respectively.

(b) Goodwill of AB & Co. was worth Rs. 75,000 and that of CD & Co. was worth Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(c) Provision for doubtful debts has to be carried forward at Rs. 5,000 in respect of debtors of AB & Co and Rs. 8,000 in respect of CD & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the Journal Entries in the books of AD & Co assuming that excess/deficit capital (taking D's Capital as base) with reference to share in profits are to be transferred to current accounts.

CHAPTER 10: AMALGAMATION: ADVANCE PROBLEMS

Q.1: A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Face value and paid up capital			Investments	1,30,000	2,10,000
Share capital (Rs. 100 each)	5,00,000	4,00,000	Sundry Assets	7,70,000	4,40,000
General Reserves	2,00,000	1,00,000			
10% Debentures	2,00,000	1,50,000			
	9,00,000	6,50,000		9,00,000	6,50,000

Compute the amount of purchase consideration each of these companies under purchase method as per AS-14.

Q.2: (CA Exam) : X Ltd. absorbs Y Ltd. by issue of 6 shares of Rs.10 each at a premium of 10% for every 5 shares of Y Ltd. For purpose of absorption, it was agreed that trade investment held by Y will realise their book value and goodwill of Y Ltd. will be Rs.20,000/-.

The Balance Sheet of the two companies were as under:

Liabilities	**X Rs.**	**Y Rs.**	**Assets**	**X Rs.**	**Y Rs.**
Share Capital in			Investments:		
Equity shares of Rs.10 each	4,00,000	3,00,000	Trade	30,000	80,000
Reserves	2,40,000	1,50,000			
Trade Creditors	40,000	30,000	Other Assets	6,50,000	4,00,000
	6,80,000	4,80,000		6,80,000	4,80,000

Kindly prepare the Balance Sheet of X Ltd. after absorption of Y Ltd. (all workings are to form part of your answer).

Q.3: (IPCC-Gr.-II-Nov.10) Following is the Balance Sheet of Y Ltd. as at 31st March 2010:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital: Issued & paid up:		*Fixed Assets*	
2,50,000 equity share of Rs. 10 each		Goodwill	8,00,000
Rs. 8 per share paid up	20,00,000	Building	7,00,000
1,00,000 (10%) pref. shares of Rs. 10		Plant and machinery	13,00,000
each fully paid up	10,00,000	*Current Assets*	
Reserves & Surplus		Stock	7,00,000
General reserve	6,00,000	Sundry debtors	9,00,000
Profit & Loss A/c	8,00,000	Bank Balance	6,60,000
Current Liabilities		*Misc. Exp.*	
Creditors	4,00,000	Preliminary Expense	40,000
Workmen's profit sharing fund	3,00,000		
	51,00,000		51,00,000

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at Rs. 12,00,000 and Plant & Machinery at Rs. 10,00,000.

The purchase consideration was payable as follows:

1. Payment of liquidation expenses Rs. 5,000 and workmen's profit sharing fund at 10% premium;
2. Issue of equity share of Rs. 10 each fully paid at Rs. 11 per share for every pref. share and every equity share of Y Ltd., and a payment of Rs. 4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening Journal entries in the books of X Ltd.

Q.4: (CA Exam) The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October,2011:

	(in crores)	**Yes Ltd.**	**No. Ltd.**
Sources of funds :			
Share capital :			
		25	5
Authorised			
Issued and Subscribed :		12	5
		88	10
		100	15
Equity shares of Rs. 10 each fully paid		--	10
Reserves and surplus		**100**	**25**
Shareholders funds			
Unsecured loan from Yes Ltd.		70	30
		50	24
Funds employed in :		20	6
Fixed assets : Cost		3	--
Less : Depreciation		10	--
Written down value			34
Investments at cost :		67	15
Long-term loan to No Ltd.		**100**	**25**
Current assets	100		
Less : Current liabilities	33		

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above.

Q.5: B. Ltd. is absorbed by A. Ltd. on 31st December, 2010 on the basis of the following Balance Sheets:

Balance Sheet of A Ltd.

Liabilities	**Rs.**	**Assets**		**Rs.**
Paid-up Capital:		Fixed Assets:		
2,00,000 Equity Shares of Rs.5 each	10,00,000	Factory Shed	5,00,000	
		Machinery	3,00,000	
General Reserve	2,50,000	Furniture	50,000	8,50,000
		Stock		2,20,000
Sundry Creditors	2,50,000	Debtors		2,00,000
		Bank Balance		60,000
		Investments:		
		Shares		1,20,000
		Debentures in B Ltd.		50,000
	15,00,000			15,00,000

Balance Sheet of B Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Paid-up Capital:		Current Assets:	
5,000 Equity Shares of Rs.100 each fully paid	5,00,000	Stock	5,00,000
		Debtors	2,50,000
		Bank Balance	30,000
6% Debentures (Rs.1,000 each)	3,00,000	Investment	
		Shares	2,00,000

Sundry Creditors	3,00,000	Profit and Loss Account	1,20,000
	11,00,000		11,00,000

The following is the scheme of absorption:

(i) Prior to absorption A Ltd. was to declare a dividend of 25%.

(ii) For every share in B. Ltd. 14 fully paid up equity share in A Ltd. were to be issued.

(iii) For each debenture in B Ltd. 10- 7 ½ preference shares of Rs.100 each of A Ltd. were to be issued as fully paid.

Draw up the Balance Sheet of A Ltd. after absorption is completed. Show necessary workings.

Q.6: Following are the Balance Sheets of A Ltd. and B Ltd. as on 31-3-2011:

A. Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital 40,000		Fixed Assets	30,00,000
Equity shares of Rs.100 each	40,00,000		
General Reserve	30,00,000	Investments	5,00,000
Current Liabilities	30,00,000	Current Assets	65,00,000
	1,00,00,000		1,00,00,000

B. Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital		Good Will	50,000
20000 Equity shares of Rs.50 each	10,00,000		
General Reserve	5,00,000	Fixed Assets	3,50,000
Current Liabilities	1,00,000		
Provision for tax	1,00,000	Current Assets	14,00,000
Proposed Dividend	1,00,000		
	18,00,000		18,00,000

B. Ltd. is to be absorbed by A Ltd. on the following terms:

1. B. Ltd. declare a dividend of 10% before absorption for the payment of which it is to retain sufficient amount of cash.
2. The net worth of B Ltd. is valued at Rs.14,50,000.
3. The purchase consideration is satisfied by the issue of fully paid up shares of Rs.100 each in A Ltd.

Following further information is also to be taken into consideration:

(a) The stocks of B-Ltd. included items valued at Rs.1,00,000 purchased from A Ltd. Cost to A Ltd. Rs.75,000.

(b) The Creditors of B Ltd. include Rs.50,000 due to A Ltd.

Show Ledger Accounts in the books of B Ltd. to give effect to the above and Balance Sheet of A Ltd. after completion of the absorption.

Q.7: Ram Ltd. and Krishna Ltd. had the following financial position as at 31st March, 2011.

Liabilities	**Ram Ltd. Rs.**	**Krishna Ltd. Rs.**	**Assets**	**Ram Ltd. Rs.**	**Krishna Ltd. Rs.**
Share Capital			Goodwill	5,00,000	1,00,000
Equity Shares			Fixed Assets	4,00,000	7,00,000
of Rs.100 each fully paid	8,00,000	6,00,000	Investments	3,00,000	2,00,000
General Reserve	3,00,000	2,00,000	at Cost		
Investment Allowance			Current Assets	3,00,000	2,50,000
Reserve	--	3,00,000			

Liabilities	4,00,000	1,50,000			
	15,00,000	12,50,000		15,00,000	12,50,000

It was decided that Ram Ltd. will take over the business of Krishna Ltd. on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

(1) The investments of Krishna Ltd. have a market value of Rs.2,10,000.

(2) Rs.1,50,000 of Investment Allowance Reserve has to be carried forward for utilisation;

(3) Goodwill of Ram Ltd. and Krishna Ltd. are to be taken at Rs.4,00,000 and Rs.2,00,000 respectively.

(4) The Market value of investments of Ram Ltd. was Rs.2,00,000.

(5) Current assets of Ram Ltd. included Rs.80,000 of stock in trade obtained from Krishna Ltd. which company normally sold its goods at a profit of 25% over cost;

(6) Fixed Assets of Ram Ltd. and Krishna Ltd. are valued at Rs. 5,00,000 and Rs.7,50,000 respectively.

Suggest the scheme of absorption and show the journal entries necessary in the books of Ram Ltd. Also prepare the Balance Sheet of that company after take over the business of Krishna Ltd.

Q.8: (CA Exam) : The following are the balance sheets of Lav Limited and Kush Limited as on 31st March, 2011:

Liabilities	**Lav Ltd. Rs.**	**Kush Ltd. Rs.**	**Assets**	**Lav Ltd. Rs.**	**Kush Ltd. Rs.**
Share Capital			Fixed Assets at WDV	4,00,000	5,00,000
Shares of Rs.100 each	8,00,000	5,00,000	Investments:	50,000	1,40,000
	36,000	2,04,000	Stock	3,00,000	2,50,000
Reserves			Debtors	2,40,000	3,20,000
	1,94,000	5,76,000	Cash at Bank	40,000	70,000
Trade Creditors					
	10,30,000	12,80,000		10,30,000	12,80,000

A new Company viz., Ram Limited was formed to take over the assets and liabilities of both the companies effective from 1-4-2011. It was agreed that Ram Limited will take over fixed assets of both the companies @ 25% above the written down value and the debtors of both the companies subject to a provision for bad debts at 5%. In the case of Lav Limited, it was further agreed that the stock shall be taken over at 90% of the stated value and the creditors at book value subject to an additional provision for sales tax liability of Rs. 24,000/-.

In the case of Kush Limited, the stock was agreed to be taken over at 110% of the stated value and the creditors at book value except a liability of Rs.12,000 which was considered no longer required.

Ram Limited issued 8,000 equity shares of Rs.100 each fully paid up to the liquidator of Lav Limited and 7,000 equity shares of Rs.100 each fully paid up to the liquidator of Kush Limited. Balance consideration was paid by cash. Registration expenses of Ram Limited came to Rs. 20,000/-.

Journalise the above transactions (including for cash in the books of Ram Limited and prepare its summarised Balance Sheet after the amalgamation is put through. All working notes should form part of your answer.

CHAPTER 11: INTERNAL RECONSTRUCTION: ADVANCE PROBLEMS

Q.1: (IPCC-Gr.-II-May10) Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	*Rs.*	*Assets*	*Rs.*
8000 – 7 ½ % Preference shares @ Rs. 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
		Furniture and Fittings	1,60,000
1,80,000 Equity shares @ Rs. 10 each fully paid	18,00,000	Patents and Copy right	60,000
		Goodwill	35,000
11% Debentures	10,00,000	Investments (at cost)	65,000
Bank overdraft	1,65,000	Sundry debtors	12,00,000
Loan from director	15,000	Stock	13,00,000
Trade creditors	6,20,000	Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalized:

1. Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.
2. Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.
3. Trade creditors accepted to take over the stock upto the value of Rs. 6,20,000.
4. Equity shareholders are to accept reduction of Rs. 4 per share.
5. Investment is to be valued at market price i.e. Rs. 60,000.
6. Sundry debtors and remaining stock is to be valued at 90% of their book value.
7. Directors have to forgo their loan in full.
8. Patents and Copy Right and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

Q.2: (IPCC-Gr.-II-May 11) The Balance Sheet of X Limited as on 31st March 2011, was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised and Subscribed Capital		Fixed Assets:	
10,000 Equity Shares of Rs. 100 each fully paid	10,00,000	Machineries	3,50,000
		Current Assets:	
Unsecured Loans:		Stock	2,53,000
15% Debentures	3,00,000	Debtors	2,30,000
Accrued Interest	45,000	Bank	20,000
Current Liabilities:		Profit & Loss A/c	5,80,000
Creditors	52,000		
Provision for Income Tax	36,000		
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

1. Each share be sub-divided into 10 fully paid up equity share of Rs. 10 each.

2. After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and creditors as necessary.
3. Out of shares surrendered, 1000 shares of Rs. 10 each shall be converted into 10% Preference Shares of Rs. 10 each fully paid up.
4. The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 1,00,000 which are converted out of shares surrendered.
5. Creditors claim shall be reduced by 25% it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
6. Balance of Profit and Loss Account to be written off.
7. The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Financial Statement of Electricity Companies

(IPCC Gr-II)

Important Changes:

The earlier syllabus (study material of ICAI) included the following, in this chapter:

1. Final Accounts as per Double Account System which included Revenue A/c, Net Revenue A/c, Receipt & Expenditure on Capital A/c & General Balance Sheet.
2. Replacement of Asset as per Double Account System.
3. Disposal of surplus as per Electricity Rules.

Questions in the examination were usually framed on point 2 & 3 above.

Now in the latest study material Board of Studies has included in brief provisions / requirements as per Electricity Act, 2003 & Regulations 2004 & Regulations 2009.

Hence we can safely assume that hence forth the above areas namely Final Accounts & Replacement of Asset as per Double Account System & Disposal of Surplus as per Electricity rules stands omitted from syllabus & no questions will be asked on the same.

What to Study Now:

Final Accounts by a Electricity Company-

The Electricity Act, 2003 which governs Electricity Companies don't prescribe any format for preparation & presentation of Financial Statement hence Revised (New) Schedule VI of Companies Act should be followed (Clarified by ICAI in its Guidance Note on Revised Schedule VI).

Revised Schedule VI & solved examples on it have already been included in chapter on Financial statement of Companies, covered in your IPCC Gr-I Accounts Book.

Also see Illustration 5 & 6 given at the end:

The Electricity Act, 2003:

The Act has been enacted to replace Indian Electricity Act, 1910, The Electricity Supply Act, 1948, The Electricity Rules 1956 and the Electricity Regulatory commissions Act, 1998.

The main purpose of the Act is to:

i) To distance state Electricity Boards from tariff determination.
ii) To reduce / remove government subsidies & to make electricity companies self sustainable.
iii) To bring private participation in this area.
iv) To bring in competition

Licensing: No licence required for power generation except for hydro power projects over a certain size but licence is required to (a) transmit electricity, or (b) distribute electricity or (c) to do trading in electricity.

The authorities under the Act are (a) Central Electricity Authority (CEA) (b) Central Electricity Regulatory Commission & (c) State Electricity Regulatory Commission.

Tariffs: Tariffs are fixed by the appropriate commissions considering various factors including safeguarding interest of consumer and at the same time recovery of cost of electricity and providing a reasonable return on investment.

For tariff determination under the Act two regulations have been issued Regulation 2004 & Regulation 2009.

Some Important Accounting Aspects

Security Deposit

Electricity company can take suitable Security Deposit from consumers for supply of Electricity and/or for providing electric line, meter etc. This is refundable deposit.

Entry: Cash / Bank a/c Dr. --
To Security Deposit a/c --

This will be shown under non-current liability in Balance sheet.

Electricity company has to pay interest at Bank Rate or more (rate prevailing on 1^{st} April of the year) on such deposit. Interest is accrued annually.

Entry: Interest Expense a/c Dr. --
To Interest Accrued on Security Deposit a/c --

This accrued interest will be adjusted against the consumers bill for the 1^{st} quarter of next year.

Entry: Interest Accrued on Security Deposit a/c Dr. --
To Electricity Sale a/c --

Accrued interest will be shown under current liability in balance sheet.

Illustration.1. Security Deposit received from a Customer on 1.7.2010 Rs.1,00,000, RBI interest Rate on 1.4.10 was 8% & on 1.4.11 9%. Account this for the year 2010-11 & 2011-12

Solution 1] Accounting for Security Deposit & Interest on it

Journal Entries

Particulars			Debit	Credit
	Year 2010 – 11			
1.7.2010	Bank A/c	Dr.	1,00,000	
	To Security Deposit			1,00,000
	(Security deposit received from consumers)			
31.3.2011	Interest A/c	Dr.	6,000	
	To Accrued interest A/c			6,000
	$\left(1,00,000 \times 8\% \times \frac{9}{12} = 6,000\right)$			
	(Interest accrued on Security deposit from consumers)			
	Year 2011-12			
30.06.2011	Accrued interest A/c	Dr.	6,000	
	To Electricity Sale A/c			6,000
	(Accrued Interest on security deposit adjusted against electricity bills of consumers)			
31.3.2012	Interest A/c	Dr.	9,000	
	To Accrued interest A/c			9,000
	$\left(1,00,000 \times 9\% \times \frac{12}{12} = 9,000\right)$			
	(Interest accrued on Security deposit from consumers)			
	Year 2012-13			
30.06.2012	Accrued Interest A/c	Dr.	9,000	
	To Electricity Sale A/c			9,000

	(Accrued Interest on security deposit adjusted against electricity bills of consumers)		

<u>Capital Service line contribution (Customers contribution for service line)</u>

An Electricity company can collect such charges for providing electricity connection and/or transformers at new areas as per rules framed by State Electricity Regulatory Commission.

<u>Entry:</u> Cash / Bank a/c Dr. --
To Customers Contribution for service line --

This will be shown under capital reserve in Reserves & Surplus in the balancesheet.

This amount shall be amortised in profit and loss account in proportion to the depreciation provided on the concerned asset.

<u>Entry:</u> Customers Contribution for service line a/c Dr. --
To Profit & Loss a/c --

<u>Accelerated Power Development and Reforms Program (APDRP):</u>

Central government introduced this program to improve distribution network, reduce/avoid transmission & distribution losses, theft etc.

<u>This has two components:</u>

<u>Investment Components:</u> That is for capital expenditure purposes. It has grant & loan component.

In special category states, 100% of the project cost is provided, 90% in grant form and 10% in loan form.

In other states, 50% of the project cost is provided of which half (i.e. 25%) is grant and other half (i.e. 25%) is loan

<u>Incentive component:</u> This is provided to motivate states to reduce their cash losses (calculated with reference to base year of 2000-01). Upto 50% of cash loss reduction is provided and is in the form of grant.

<u>Accounting for loan component:</u> Loan component will be accounted as usually and will be treated as long term borrowings. Interest will be recognized at the applicable rates and will be treated as revenue expense.

<u>Accounting for Grant Component:</u> Grant under APDRP received as <u>incentive component</u> for reduction in cash los should be recognized in profit & loss account.

<u>Entry:</u> Bank a/c Dr. --
To Profit & Loss a/c (grant as incentive for reduction in cash losses) --

<u>Grant received for capital expenditure</u> shall be treated as capital receipt and should be shown under Capital Reserve in Reserves & Surplus in Balancesheet.

<u>Entry</u> Bank a/c Dr. --
To Capital Grant under APDRP a/c

This grant should be amortised to profit & loss account in proportion to the depreciation charged on the respective assets.

<u>Entry</u> Capital Grant under APDRP a/c Dr. --
To Profit & Loss a/c --

<u>Note:</u> In cash flow statement such grant & customers contribution for service line (as discussed earlier) shall be shown under financing activity.

Illustration.2. An Electricity company has incurred Capital Expenditure of Rs.100 lakhs having life of 10 years. This is partly financed as 40% of Cost contributed by consumer & 25% is grant from central government. Account this transactions & their amortization.

Solution 2] Amortisation of Consumers Contribution & Govt. grant for capital expenditure

Cost of Asset 100 Life: 10 year

(-) Salvage value	10
Depreciable amount	90

Depreciable p.a. $\left(\frac{90}{10}\right) = 9$

Consumers Contribution	40
Government grant	25

Writ off / amortization of Consumers Contribution & Government grant in proportion to depreciation:

Consumers contribution $= \frac{40}{10}$ = 4 Lakh p.a.

Government grant $= \frac{25}{10}$ = 2.50 p.a.

Journal Entries

Particulars		Debit	Credit
Bank A/c	Dr.	65	
To Contribution from Consumer for service line A/c			40
To Government grant A/c			25
(For capital expenditure, 40% Contribution received from consumers and 25% grant from govt.)			
Plant & Machinery A/c	Dr.	100	
To Bank A/c			100
(Plant and machinery acquired)			

Every year – year 1 to 10			
Depreciation A/c	Dr.	9	
To Plant & Machinery / Depreciation Provision A/c			9
(Depreciation charged)			
Consumers Contribution A/c	Dr.	4	
Government grant A/c	Dr.	2.5	
To Profit & Loss A/c			6.5
(Consumers contribution and Govt. grant amortised in proportion to the depreciation charged on the concerned asset)			

Depreciation:

Regulation 2009 provides following with regard to the depreciation:

(i) Rates shall be determined by Central Electricity Regulatory Commission.

(ii) This rates shall be followed for tariff as well as for accounting.

(iii) Depreciation will be by SLM (Straight Line Method)

(iv) Salvage Value of at least 10% will be considered i.e. maximum 90% of the cost will be written off over the useful life of the asset.

(v) Depreciation will be charged on Historical Cost & not on Revalued value.

(vi) Depreciation will be charged on time proportion basis & will start when the asset is put to use

(vii) If allows optimized Depreciated Replacement Cost (ODRC) i.e. if asset is financed by loan component then depreciation equal to the principle loan repayment in each year will be provided until the repayment of loan, remaining depreciable balance thereafter will be written off over remaining useful life on SLM.

(viii) Commission has considered 12 years repayment period of loan& accordingly has given rates. After repayment of loan the balance depreciable value shall be divided over remaining useful life.

Summarised / Grouped Depreciation Rates are as follows

A.	Land → Owned	0%
B.	Land → Leased	3.34%
C.	Building & Civil Engineering works	3.34%
D.	Plant & Machinery in generating stations, Cooling tower & circulating water systems, Hydraulic works, Transformers, substation equipments, switchgear including Cable connections, Lightning arrestor, Batteries, overhead lines, Meters, AC plant-static, Street Light fittings, asset not covered anywhere else.	5.28%
E.	Office furniture, office Equipment, Internal wiring, Motors given on hire, Communication equipment	6.33%
F.	Self propelled vehicles, AC plant-portable, Apparatus on hire other than motors	9.50%
G.	I.T. equipments	15.00%
H.	Temporary erections such as wooden structures	100.00%

Debt Equity Ratio (For Tariff calculation)

AS per Regulations Debt equity Ratio of 70:30 i.e. 70% Debt & 30% Equity Should be considered for financing Capital Expenditure

Debt higher than 70% will be allowed. Higher equity can be allowed by Commission in certain cases.

In other cases equity above 30% shall be considered as notional loan & interest on that portion will be considered

Return on Equity will be allowed at 14%

Illustration.3. An Electricity company has acquired plant & machinery costing Rs.20 lakhs having useful life of 15 years. Calculate Depreciation.

Solution 3] Calculation of Depreciation:

Cost of Assets 20 lakhs

Life 15 years

Salvage value 10% as per regulation. The same is considered.

Cost of Asset	20
– Salvage value	2
Depreciable amount	18

Life 15 years

Depreciation p.a. $\frac{18}{15} = 1.20$ Lakhs

Illustration.4. An Electricity company has financed the project costing Rs.200 lakhs by 70% Debt & 30% Equity. Debt bearing 12% Interest is to be repaid in 10 equal annual installments. Life of Asset is 15 years. Considering that Electricity generation, distribution & other costs (excluding Depreciation & interest) are Rs.50 lakhs p.a. Calculate annual Revenue (Tariff) During the currency of loan & thereafter.

Solution 4] Tariff Calculation: Depreciation to create cash flow for loan repayment.

Cost of assets		200
Financed by: Debt	70%	140
Equity	30%	60

Loan repaid in 10 equal installment i.e. $\frac{140}{10}$ = 14 Lakhs p.a.

Cot of Asset	200
– Salvage Value 10%	20
Depreciable Value	180
Depreciation in 1st 10 years equal to the principle loan being repaid.	
@14 x 10 years	140
Balance to be write off in year 11–15	40

$\therefore$ Depreciation p.a. $= \frac{40}{5}$ = 8 p.a. for year 11 to 15

Tariff (Revenues) Calculation

Particulars	During loan repayment term			Afterwards
	1st year	2nd year	10th year	11th – 15th year
Electricity generation, distribution & other costs	50.00	50.00	50.00	50.00
Interest on loan 1st year (140 x 12%) 2nd (140 – 14) x 12%, 3rd 14 x 12%	16.80	15.12	1.68	–
Depreciation	14.00	14.00	14.00	8.00
Return allowed on equity (60 x 14%)	8.40	8.40	8.40	8.40
Tariff / Revenues	89.20	87.52	74.08	66.40

Financial Statement of Electricity Company

Illustration.5: From the following balances as at 31st December, 2010, prepare the Revenue Account, Net Revenue Account, Capital Account and General Balance Sheet of GIP Power and Light Co. Ltd.

	Rs.		Rs.
Balance as on 1st January, 2010		Expenses of Management	14,400
Land	1,80,000	Cost of Distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sales of Current	1,56,000
Expenditure during the year		Meter Rent	6,000
Land	6,000	Interest on Debentures	12,000
Machinery	6,000	Interim Dividend	24,000
Mains	61,200	Net Revenue A/c as on 01-01-2010	34,200
Share Capital-Ordinary Shares	6,58,800	Sundry Debtors:	
Debentures	2,40,000	For energy supplied	48,000
Sundry Creditors	1,200	Other	600
Cost of Generation	42,000	Cash Balance	6,000
Rent, Rates and Taxes	6,000	Depreciation Fund	3,00,000

Solution 5:

BALANCE SHEET (As per Revised Schedule VI)

Balance Sheet of GIP Power and Light Co. Ltd.

	Particulars	Notes		Rs.
	1	3	4	5
I.	**CAPITAL AND LIABILITIES**			
(1)	**Shareholders' funds**			

	Share capital		6,58,800	
	Reserves and surplus	1	67,800	7,26,600
(2)	**Share application money pending allotment**			--
(3)	**Non-current liabilities**			
	Long-term borrowings			
	Debenture			2,40,000
(4)	**Current liabilities**			
	Trade Payables			1,200
	TOTAL			**9,67,800**
II.	**ASSETS**			
(1)	**Non-current assets**			
	Fixed assets	2		9,13,200
(2)	**Current assets**			
	Trade receivables		48,000	
	Cash and cash equivalents		6,000	
	Other current assets		600	54,600
	TOTAL			**9,67,800**

Profit & Loss Account (As per Revised Schedule VI)

GIP Power and Light Co. Ltd.

Profit and loss statement for the year ended 31.12.2010

	Particulars		Rs.
I.	Revenue from operations: Sales of current		1,56,000
II.	Other income: Meter rent		6,000
III.	**Total Revenue** (I+II)		1,62,000
IV.	**Expenses:**		
	Cost of Generation		42,000
	Finance costs: Interest on Debenture		12,000
	Depreciation and amortisation expenses		24,000
	Other expenses		
	Rent Rates Taxes	6,000	
	Expense of Management	14,400	
	Cost of distribution	6,000	26,400
	Total Expenses		1,04,400
V.	Profit before exceptional and extraordinary items and tax		57,600
VI.	Exceptional items		--
VII.	Profit before extraordinary items and tax		57,600
VIII.	Extraordinary Items		--
IX.	Profit before tax		57,600
X.	Tax expense:		--
XV.	Profit (Loss) for the period		57,600

Note No. 1: Reserve & Surplus:

	Profit & Loss Account (Net Revenue A/c)			Rs.
	Balance brought forward		34,200	
	Add: Profit for the year		57,600	
	Less: Interim Dividend		- 24,000	67,800

Note No. 2: Fixed Assets:

	Fixed Assets	Opening	Additions	Closing
	Land	1,80,000	6,000	1,86,000
	Machinery	7,20,000	6,000	7,26,000
	Mains	2,40,000	61,200	3,01,200
	Total			12,13,200
	Less: Depreciation Fund			3,00,000

	Closing WDV			9,13,200

Illustration.6: The following balances are drawn from the books of an Electricity Supply Company for the year ended 31st December, 2010, Finalise the accounts following double accounts system (you may ignore the requirements of the Indian Electricity Rules, 1956).

	Rs.
Sale of Electricity : Domestic	75,20,000
Commercial	1,80,12,000
Misc. Revenues: Meter Rent	1,88,000
Service Connections Fees	1,75,000
Public Lighting Maintenance	2,80,000
Other Revenues: Sale of Stores	50,000
Repair of Electrical Apparatus	40,000
Maintenance Expenses:	
Salaries	78,40,000
Operations & Maintenance of High Voltage Distribution	40,12,000
Operations & Maintenance of Medium & Low Voltage Distribution	36,40,000
Public Lighting	12,17,000
Consumers' Servicing	50,000
General Establishment Charges	2,85,000
Interest	12,10,000
Bad Debts	80,000
Management Charges	4,80,000
Assets as on 1-1-2010:	
Distribution Plant - High Voltage	1,80,50,000
Distribution Plant - Medium and Low Voltage	90,90,000
Public Lighting	40,00,000
General Equipment	50,00,000
Share Capital: 10,00,000 equity shares of Rs.10 each	1,00,00,000
Government Grant	10,00,000
Consumers' Contribution for Service Line	50,00,000
Loan	2,40,00,000
Reserve	40,50,000
Capital Expenditure During 2010: High Voltage Distribution Plant	14,00,000
Medium and Low Voltage Distribution Plant	15,00,000
Loan raised during 2010: 10% Electricity Board	25,00,000
Other Assets and Liabilities as on 31-12-2010:	
Sundry Creditors	15,22,000
Sundry Debtors	27,36,000
Cash-at Bank	62,97,000
Investments	82,50,000
Charge Depreciation @ 5% on all assets.	

Solution 6:

BALANCE SHEET (As per Revised Schedule VI)

Balance Sheet of Electricity Supply Company.

	Particulars	Notes		Rs.
	1	3	4	5
I.	**CAPITAL AND LIABILITIES**			
(1)	**Shareholders' funds**			
	Share capital		1,00,00,000	
	Reserves and surplus	1	1,55,49,000	2,55,49,000
(2)	**Share application money pending allotment**			--
(3)	**Non-current liabilities**			
	Long-term borrowings: Loans	2		2,65,00,000
(4)	**Current liabilities**			
	Trade Payables			15,22,000
	TOTAL			**535,71,000**
II.	**ASSETS**			
(1)	**Non-current assets**			
	Fixed assets	3	3,62,88,000	
	Non-current investment		82,50,000	4,45,38,000
(2)	**Current assets**			
	Trade receivables		27,36,000	
	Cash and cash equivalents		62,97,000	90,33,000
	TOTAL			**535,71,000**

Profit & Loss Account (As per Revised Schedule VI)

Electricity Supply Company.

Profit and loss statement for the year ended 31.12.2010

	Particulars	Notes	Rs.
I.	Revenue from operations: Sales of current	4	2,55,32,000
II.	Other income:	5	7,33,000
III.	**Total Revenue** (I+II)		2,62,65,000
IV.	**Expenses:**		
	Cost of Generation & Operation, Maintenance	6	88,69,000
	Employee benefit cost		78,40,000
	Finance costs: Interest on Debenture		12,10,000
	Depreciation and amortisation expenses		19,52,000
	Other expenses	7	8,95,000
	Total Expenses		2,07,66,000
V.	Profit before exceptional and extraordinary items and tax		54,99,000
VI.	Exceptional items		--
VII.	Profit before extraordinary items and tax		54,99,000

VIII.	Extraordinary Items		--
IX.	Profit before tax		54,99,000
X.	Tax expense:		--
XV.	Profit (Loss) for the period		54,99,000

Note No. 1: Reserve & Surplus:

			Rs.
	Capital reserve: Govt. Grant : Consumers contribution for service line Reserves Profit & loss account		10,00,000 50,00,000 40,50,000 54,99,000
			1,55,49,000

Note No. 2: Long term Borrowings:

	Loans			**Rs.**
	Balance brought forward Addition during the year		2,40,00,000 25,00,000	2,65,00,000

Note No. 3: Fixed Assets:

	Fixed Assets	Opening	Additions	Closing
	Distribution Plant- High voltage	1,80,50,000	14,00,000	1,94,50,000
	- Medium & low voltage	90,90,000	15,00,000	1,05,90,000
	Public lighting	40,00,000		40,00,000
	General equipment	50,00,000		50,00,000
	Total			3,90,40,000
	Less: Depreciation Provision: Opening		8,00,000	
	Current year @5% on 3,90,40,000		19,52,000	27,52,000
	Closing WDV			3,62,88,000

Sp. Note: Difference in trial balance Rs.8,00,000 credit short is assumed as Opening depreciation provision. Current years depreciation is assumed by SLM.

Note No. 4: Sales:

	Sale of Electricity			**Rs.**
	Domestic		75,20,000	
	Commercial		1,80,12,000	2,55,32,000

Note No. 5: Other Income:

	Misc. & Other revenue			**Rs.**
	Meter Rent		1,88,000	
	Service connection fees		1,75,000	
	Public lighting maintenance		2,80,000	
	Sales of stores		50,000	
	Repair of electrical apparatus		40,000	7,33,000

Note No. 6: Generation, Operation & Maintenance Expenses:

				Rs.
	Operation & Maintenance- High voltage dist.		40,12,000	
	- Medium & low voltage dist.		36,40,000	
	- Public lighting		12,17,000	88,69,000

Note No. 7: Other Expenses:

	Other expenses			**Rs.**
	Consumers servicing		50,000	
	General establishment charges		2,85,000	
	Bad debt		80,000	
	Management charges		4,80,000	8,95,000

CHAPTER 11: INTERNAL RECONSTRUCTION: ADVANCE PROBLEMS

Q.1: (IPCC-Gr.-II-May10) Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	*Rs.*	*Assets*	*Rs.*
8000 – 7 ½ % Preference shares @ Rs. 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
		Furniture and Fittings	1,60,000
1,80,000 Equity shares @ Rs. 10 each fully paid	18,00,000	Patents and Copy right	60,000
		Goodwill	35,000
11% Debentures	10,00,000	Investments (at cost)	65,000
Bank overdraft	1,65,000	Sundry debtors	12,00,000
Loan from director	15,000	Stock	13,00,000
Trade creditors	6,20,000	Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalized:

9. Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.
10. Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.
11. Trade creditors accepted to take over the stock upto the value of Rs. 6,20,000.
12. Equity shareholders are to accept reduction of Rs. 4 per share.
13. Investment is to be valued at market price i.e. Rs. 60,000.
14. Sundry debtors and remaining stock is to be valued at 90% of their book value.
15. Directors have to forgo their loan in full.
16. Patents and Copy Right and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

Q.2: (IPCC-Gr.-II-May 11) The Balance Sheet of X Limited as on 31st March 2011, was as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised and Subscribed Capital		Fixed Assets:	
10,000 Equity Shares of Rs. 100 each fully paid	10,00,000	Machineries	3,50,000
		Current Assets:	
Unsecured Loans:		Stock	2,53,000
15% Debentures	3,00,000	Debtors	2,30,000
Accrued Interest	45,000	Bank	20,000
Current Liabilities:		Profit & Loss A/c	5,80,000
Creditors	52,000		
Provision for Income Tax	36,000		
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

8. Each share be sub-divided into 10 fully paid up equity share of Rs. 10 each.

9. After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and creditors as necessary.
10. Out of shares surrendered, 1000 shares of Rs. 10 each shall be converted into 10% Preference Shares of Rs. 10 each fully paid up.
11. The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 1,00,000 which are converted out of shares surrendered.
12. Creditors claim shall be reduced by 25% it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
13. Balance of Profit and Loss Account to be written off.
14. The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Q.No.3: The Balance Sheet of M/s Ice Ltd. as on 31-3-2011 is given below:

Liabilities	**₹**	**Assets**	**₹**
1,00,000 equity shares of ₹ 10 each fully paid up	10,00,000	Freehold Property	5,50,000
		Plant and Machinery	2,00,000
4,000, 8% preference shares of ₹ 100 each fully paid	4,00,000	Trade investment (at cost)	2,00,000
		Sundry Debtors	4,50,000
6% Debenture 4,00,000 (secured by freehold property)		Stock-in-Trade	3,00,000
Arrear interest 24,000	4,24,000	Deferred Advertisement Expenses	50,000
Sundry Creditors	1,01,000	Profit and Loss Account	4,75,000
Director's Loan	3,00,000		
	22,25,000		**22,25,000**

The Board of Directors of the Company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.

(iii) Debenture holders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and for the balance, equity share of ₹ 2 each to be allotted.

(viii) 40% of sundry debtors, 80% of stock and 100% of deferred advertisement expenses to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme. **(IPCC-Gr.-I-Nov. 11)**

CHAPTER 10: AMALGAMATION: ADVANCE PROBLEMS

Q.1: A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Face value and paid up capital			Investments	1,30,000	2,10,000
Share capital (Rs. 100 each)	5,00,000	4,00,000	Sundry Assets	7,70,000	4,40,000
General Reserves	2,00,000	1,00,000			
10% Debentures	2,00,000	1,50,000			
	9,00,000	6,50,000		9,00,000	6,50,000

Compute the amount of purchase consideration each of these companies under purchase method as per AS-14.

Q.2: (CA Exam) : X Ltd. absorbs Y Ltd. by issue of 6 shares of Rs.10 each at a premium of 10% for every 5 shares of Y Ltd. For purpose of absorption, it was agreed that trade investment held by Y will realise their book value and goodwill of Y Ltd. will be Rs.20,000/-.

The Balance Sheet of the two companies were as under:

Liabilities	**X Rs.**	**Y Rs.**	**Assets**	**X Rs.**	**Y Rs.**
Share Capital in			Investments:		
Equity shares of Rs.10 each	4,00,000	3,00,000	Trade	30,000	80,000
Reserves	2,40,000	1,50,000			
Trade Creditors	40,000	30,000	Other Assets	6,50,000	4,00,000
	6,80,000	4,80,000		6,80,000	4,80,000

Kindly prepare the Balance Sheet of X Ltd. after absorption of Y Ltd. (all workings are to form part of your answer).

Q.3: (IPCC-Gr.-II-Nov.10) Following is the Balance Sheet of Y Ltd. as at 31st March 2010:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital: Issued & paid up:		*Fixed Assets*	
2,50,000 equity share of Rs. 10 each		Goodwill	8,00,000
Rs. 8 per share paid up	20,00,000	Building	7,00,000
1,00,000 (10%) pref. shares of Rs. 10		Plant and machinery	13,00,000
each fully paid up	10,00,000	*Current Assets*	
Reserves & Surplus		Stock	7,00,000
General reserve	6,00,000	Sundry debtors	9,00,000
Profit & Loss A/c	8,00,000	Bank Balance	6,60,000
Current Liabilities		*Misc. Exp.*	
Creditors	4,00,000	Preliminary Expense	40,000
Workmen's profit sharing fund	3,00,000		
	51,00,000		51,00,000

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at Rs. 12,00,000 and Plant & Machinery at Rs. 10,00,000.

The purchase consideration was payable as follows:

3. Payment of liquidation expenses Rs. 5,000 and workmen's profit sharing fund at 10% premium;
4. Issue of equity share of Rs. 10 each fully paid at Rs. 11 per share for every pref. share and every equity share of Y Ltd., and a payment of Rs. 4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening Journal entries in the books of X Ltd.

Q.4: (CA Exam) The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October,2011:

		Yes Ltd.	No. Ltd.
	(in crores)		
Sources of funds :			
Share capital :			
		25	5
Authorised			
Issued and Subscribed :		12	5
		88	10
		100	15
Equity shares of Rs. 10 each fully paid		--	10
Reserves and surplus		**100**	**25**
Shareholders funds			
Unsecured loan from Yes Ltd.		70	30
		50	24
Funds employed in :		20	6
Fixed assets : Cost		3	--
Less : Depreciation		10	--
Written down value			34
Investments at cost :		67	15
Long-term loan to No Ltd.		**100**	**25**
Current assets	100		
Less : Current liabilities	33		

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above.

Q.5: B. Ltd. is absorbed by A. Ltd. on 31st December, 2010 on the basis of the following Balance Sheets:

Balance Sheet of A Ltd.

Liabilities	Rs.	Assets		Rs.
Paid-up Capital:		Fixed Assets:		
2,00,000 Equity Shares of Rs.5 each	10,00,000	Factory Shed	5,00,000	
		Machinery	3,00,000	
General Reserve	2,50,000	Furniture	50,000	8,50,000
		Stock		2,20,000
Sundry Creditors	2,50,000	Debtors		2,00,000
		Bank Balance		60,000
		Investments:		
		Shares		1,20,000
		Debentures in B Ltd.		50,000
	15,00,000			15,00,000

Balance Sheet of B Ltd.

Liabilities	Rs.	Assets	Rs.
Paid-up Capital:		Current Assets:	
5,000 Equity Shares of Rs.100 each fully paid	5,00,000	Stock	5,00,000
		Debtors	2,50,000
		Bank Balance	30,000
6% Debentures (Rs.1,000 each)	3,00,000	Investment	
		Shares	2,00,000

Sundry Creditors	3,00,000	Profit and Loss Account	1,20,000
	11,00,000		11,00,000

The following is the scheme of absorption:

(iv) Prior to absorption A Ltd. was to declare a dividend of 25%.

(v) For every share in B. Ltd. 14 fully paid up equity share in A Ltd. were to be issued.

(vi) For each debenture in B Ltd. 10- 7 ½ preference shares of Rs.100 each of A Ltd. were to be issued as fully paid.

Draw up the Balance Sheet of A Ltd. after absorption is completed. Show necessary workings.

Q.6: Following are the Balance Sheets of A Ltd. and B Ltd. as on 31-3-2011:

A. Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital 40,000		Fixed Assets	30,00,000
Equity shares of Rs.100 each	40,00,000		
General Reserve	30,00,000	Investments	5,00,000
Current Liabilities	30,00,000	Current Assets	65,00,000
	1,00,00,000		1,00,00,000

B. Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital		Good Will	50,000
20000 Equity shares of Rs.50 each	10,00,000		
General Reserve	5,00,000	Fixed Assets	3,50,000
Current Liabilities	1,00,000		
Provision for tax	1,00,000	Current Assets	14,00,000
Proposed Dividend	1,00,000		
	18,00,000		18,00,000

B. Ltd. is to be absorbed by A Ltd. on the following terms:

4. B. Ltd. declare a dividend of 10% before absorption for the payment of which it is to retain sufficient amount of cash.
5. The net worth of B Ltd. is valued at Rs.14,50,000.
6. The purchase consideration is satisfied by the issue of fully paid up shares of Rs.100 each in A Ltd.

Following further information is also to be taken into consideration:

(c) The stocks of B-Ltd. included items valued at Rs.1,00,000 purchased from A Ltd. Cost to A Ltd. Rs.75,000.

(d) The Creditors of B Ltd. include Rs.50,000 due to A Ltd.

Show Ledger Accounts in the books of B Ltd. to give effect to the above and Balance Sheet of A Ltd. after completion of the absorption.

Q.7: Ram Ltd. and Krishna Ltd. had the following financial position as at 31st March, 2011.

Liabilities	**Ram Ltd. Rs.**	**Krishna Ltd. Rs.**	**Assets**	**Ram Ltd. Rs.**	**Krishna Ltd. Rs.**
Share Capital			Goodwill	5,00,000	1,00,000
Equity Shares			Fixed Assets	4,00,000	7,00,000
of Rs.100 each fully paid	8,00,000	6,00,000	Investments	3,00,000	2,00,000
General Reserve	3,00,000	2,00,000	at Cost		
Investment Allowance			Current Assets	3,00,000	2,50,000
Reserve	--	3,00,000			

Liabilities	4,00,000	1,50,000			
	15,00,000	12,50,000		15,00,000	12,50,000

It was decided that Ram Ltd. will take over the business of Krishna Ltd. on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

(7) The investments of Krishna Ltd. have a market value of Rs.2,10,000.

(8) Rs.1,50,000 of Investment Allowance Reserve has to be carried forward for utilisation;

(9) Goodwill of Ram Ltd. and Krishna Ltd. are to be taken at Rs.4,00,000 and Rs.2,00,000 respectively.

(10) The Market value of investments of Ram Ltd. was Rs.2,00,000.

(11) Current assets of Ram Ltd. included Rs.80,000 of stock in trade obtained from Krishna Ltd. which company normally sold its goods at a profit of 25% over cost;

(12) Fixed Assets of Ram Ltd. and Krishna Ltd. are valued at Rs. 5,00,000 and Rs.7,50,000 respectively.

Suggest the scheme of absorption and show the journal entries necessary in the books of Ram Ltd. Also prepare the Balance Sheet of that company after take over the business of Krishna Ltd.

Q.8: (CA Exam) : The following are the balance sheets of Lav Limited and Kush Limited as on 31st March, 2011:

Liabilities	**Lav Ltd. Rs.**	**Kush Ltd. Rs.**	**Assets**	**Lav Ltd. Rs.**	**Kush Ltd. Rs.**
Share Capital			Fixed Assets at WDV	4,00,000	5,00,000
Shares of Rs.100 each	8,00,000	5,00,000	Investments:	50,000	1,40,000
	36,000	2,04,000	Stock	3,00,000	2,50,000
Reserves			Debtors	2,40,000	3,20,000
	1,94,000	5,76,000	Cash at Bank	40,000	70,000
Trade Creditors					
	10,30,000	12,80,000		10,30,000	12,80,000

A new Company viz., Ram Limited was formed to take over the assets and liabilities of both the companies effective from 1-4-2011. It was agreed that Ram Limited will take over fixed assets of both the companies @ 25% above the written down value and the debtors of both the companies subject to a provision for bad debts at 5%. In the case of Lav Limited, it was further agreed that the stock shall be taken over at 90% of the stated value and the creditors at book value subject to an additional provision for sales tax liability of Rs. 24,000/-.

In the case of Kush Limited, the stock was agreed to be taken over at 110% of the stated value and the creditors at book value except a liability of Rs.12,000 which was considered no longer required.

Ram Limited issued 8,000 equity shares of Rs.100 each fully paid up to the liquidator of Lav Limited and 7,000 equity shares of Rs.100 each fully paid up to the liquidator of Kush Limited. Balance consideration was paid by cash. Registration expenses of Ram Limited came to Rs. 20,000/-.

Journalise the above transactions (including for cash in the books of Ram Limited and prepare its summarised Balance Sheet after the amalgamation is put through. All working notes should form part of your answer.

Financial Statement of Electricity Companies

(IPCC Gr-II)

Q.1. Security Deposit received from a Customer on 1.7.2010 Rs.1,00,000, RBI interest Rate on 1.4.10 was 8% & on 1.4.11 9%. Account this for the year 2010-11 & 2011-12

Q.2. An Electricity company has acquired plant & machinery costing Rs.20 lakhs having useful life of 15 years. Calculate Depreciation.

Q.3. An Electricity company has incurred Capital Expenditure of Rs.100 lakhs having life of 10 years. This is partly financed as 40% of Cost contributed by consumer & 25% is grant from central government. Account this transactions & their amortization.

Q.4. An Electricity company has financed the project costing Rs.200 lakhs by 70% Debt & 30% Equity. Debt bearing 12% Interest is to be repaid in 10 equal annual installments. Life of Asset is 15 years. Considering that Electricity generation, distribution & other costs (excluding Depreciation & interest) are Rs.50 lakhs p.a. Calculate annual Revenue (Tariff) During the currency of loan & thereafter.

Financial Statement of Electricity Company

Q.5: From the following balances as at 31st December, 2010, prepare the Revenue Account, Net Revenue Account, Capital Account and General Balance Sheet of GIP Power and Light Co. Ltd.

	Rs.		Rs.
Balance as on 1st January, 2010		Expenses of Management	14,400
Land	1,80,000	Cost of Distribution	6,000
Machinery	7,20,000	Depreciation	24,000
Mains	2,40,000	Sales of Current	1,56,000
Expenditure during the year		Meter Rent	6,000
Land	6,000	Interest on Debentures	12,000
Machinery	6,000	Interim Dividend	24,000
Mains	61,200	Net Revenue A/c as on 01-01-2010	34,200
Share Capital-Ordinary Shares	6,58,800	Sundry Debtors:	
Debentures	2,40,000	For energy supplied	48,000
Sundry Creditors	1,200	Other	600
Cost of Generation	42,000	Cash Balance	6,000
Rent, Rates and Taxes	6,000	Depreciation Fund	3,00,000

Q.6: The following balances are drawn from the books of an Electricity Supply Company for the year ended 31st December, 2010, Finalise the accounts following double accounts system (you may ignore the requirements of the Indian Electricity Rules, 1956).

	Rs.
Sale of Electricity : Domestic	75,20,000
Commercial	1,80,12,000
Misc. Revenues: Meter Rent	1,88,000
Service Connections Fees	1,75,000
Public Lighting Maintenance	2,80,000

Other Revenues: Sale of Stores	50,000
Repair of Electrical Apparatus	40,000
Maintenance Expenses:	
Salaries	78,40,000
Operations & Maintenance of High Voltage Distribution	40,12,000
Operations & Maintenance of Medium & Low Voltage Distribution	36,40,000
Public Lighting	12,17,000
Consumers' Servicing	50,000
General Establishment Charges	2,85,000
Interest	12,10,000
Bad Debts	80,000
Management Charges	4,80,000
Assets as on 1-1-2010:	
Distribution Plant - High Voltage	1,80,50,000
Distribution Plant - Medium and Low Voltage	90,90,000
Public Lighting	40,00,000
General Equipment	50,00,000
Share Capital: 10,00,000 equity shares of Rs.10 each	1,00,00,000
Government Grant	10,00,000
Consumers' Contribution for Service Line	50,00,000
Loan	2,40,00,000
Reserve	40,50,000
Capital Expenditure During 2010: High Voltage Distribution Plant	14,00,000
Medium and Low Voltage Distribution Plant	15,00,000
Loan raised during 2010: 10% Electricity Board	25,00,000
Other Assets and Liabilities as on 31-12-2010:	
Sundry Creditors	15,22,000
Sundry Debtors	27,36,000
Cash-at Bank	62,97,000
Investments	82,50,000
Charge Depreciation @ 5% on all assets.	

Sp. Note: Difference in trial balance Rs.8,00,000 credit short is assumed as Opening depreciation provision. Current years depreciation is taken by SLM as per new norms.