Disclaimer Clause : *These solutions are prepared by expert faculty tem of Resonance. Views and answers provided may differ from that would be given by ICAI due to difference in assumptions taken in support of the answers. In such case answers as provided by ICAI will be deemed as final.*

Ans.1(a)

Computation of Basic and Diluted EPS :

Basic EPS

Net Profit for the period attributable to Equity Shareholders	=	₹ 24,00,000
Weighted Average No. of Equity Shares	=	10,00,000
Basic EPS	=	**₹ 2.40**

Diluted EPS

Net Profit for the period attributable to Equity Shareholders	=	₹ 24,00,000
Weighted Average No. of Equity Shares **(working note i)**	=	10,40,000
Diluted EPS	=	**₹ 2.31**

Working note

(i) Weighted Average No. of Equity Shares for Basic EPS	=	10,00,000
Adjustment for Diluted EPS		
$\left[2{,}00{,}000 - \dfrac{(2{,}00{,}000 \times 20)}{25}\right]$	=	40,000
		10,40,000

Ans.1(b) **Accounting Treatment**

Total Value as given ₹ 1,50,000

Damaged Stock ₹ 4,000	Other Stock ₹ 1,46,000 **(Bal. Fig.)**
Value = Lower of earlier Carrying Amount ₹ 12,000 or Revised NRV ₹ 4,000	Value = ₹ 1,46,000, assuming NRV is greater than the Carrying Amount
₹ 4,000	**₹ 1,46,000**

So, Value of Stock as at 31.03.2013 = Rs. 4,000 (damaged goods) + Rs. 1,46,000 (other than damaged goods) = **Rs. 1,50,000**

Note:

1. It is assumed that the Closing Stock on 31.03.2013 Rs. 1,50,000, includes damaged items valued at new NRV Rs. 4,000, and such damaged items have **already been written down** to their revised NRV Rs. 4,000.
2. There is no error or omission in the Prior Period, in this case. It is a case of change in accounting estimates relating to NRV of damaged item. Hence, Stock of Damaged Item should be written down to its Revised NRV Rs. 4,000, and the difference (loss) (Rs. 12,000 less Rs. 4,000) should be written off to P&L, as a **separate item**, by virtue of AS–5, read with valuation principles in AS–2.

Ans.1(c)

1. Computation of Provision at year end:

Invoice Date	Last Date of Warranty	Provision as on 31.03.2012	Provision as on 31.03.2013
19.01.2011	19.01.2013	40,000 × 2% = 800	Nil (Warranty period has expired)
29.01.2012	29.01.2014	25,000 × 3% = 750	25,000 × 2% = 500
15.10.2012	15.10.2014	N.A.(Invoice not yet raised)	90,000 × 3% = 2,700
	Total	**1,550**	**3,200**

2. Amount to be debited to Profit & Loss A/c for the year ended 31.03.2013 :

Balance of Provision as on 31.03.2013	=	Rs. 3,200
Less: Balance of Provision as on 31.03.2012	=	Rs. 1,550
		Rs. 1,650.

Ans.1(d)

1. **Principles under AS–26:**
   - **(a) Amortisation:** Cost of an Intangible Asset should be amortized over its useful life. Useful life may be determined on the basis of Legal Life, Economic Life, etc.
   - **(b) Legal Rights Period:** Useful life of Assets acquired by way of legal right, should not exceed the period of legal rights granted for a finite period.
   - **(c) Amortisation over and above the Legal Rights Period:** If control over the future economic benefits from an Intangible Asset is achieved through legal rights that have been granted for a finite period, the useful life of the Intangible Asset should **not** exceed the period of legal rights unless –
     (i) The legal rights are renewable, and
     (ii) Renewal is virtually certain.

2. **Analysis and Conclusion:**
   - **(a)** Initial Estimate of Total Cash Inflow = 200 + 200 + 200 + 100 + 100 = Rs. 800 Lakhs
   - **(b)** So, as per initial estimate, the cost of Patent should be written off in the ratio 2 : 2 : 2 : 1 : 1, i.e. (Rs. Lakhs) 100, 100, 100, 50 and 50 respectively, for the five years.
   - **(c)** Unamortised Amount (WDV) of Patent at the end of 3rd year = 400 – (100+100+100) = **Rs. 100 Lakhs.**
   - **(d)** Revised Estimate of Useful Life at the end of 3rd year = **3 further years**, with estimated Cash Inflows being as under – Year 4: Rs. 100 Lakhs, Year 5: Rs. 100 Lakhs, Year 6: Rs. 50 Lakhs.
   - **(e)** Hence, the unamortised Carrying Amount should be written off over the next 3 years, in the ratio of 100 : 100 : 50, i.e. Rs. 40 Lakhs, Rs. 40 Lakhs and Rs. 20 Lakhs respectively, for Years 4, 5 and 6.

   Note: If it is assumed that the Patent Right is not renewable, the present unamortised amount of Rs. 100 Lakhs may be written off in Years 4 and 5, as per initial estimate, at Rs. 50 Lakhs p.a.

Ans.2

Dr. **1. Profit and Loss Account for the year ended 31.03.2013** Cr.

Expenses	₹	Incomes	₹
To Depreciation Machinery (60,000 x 10%) 6,000 Furniture (10,000 x 5%) 500	6,500	By Net Profits b/d	50,000
To Int. on Q's Loan (15,000 x 6%)	900	By Int. Income (50,000 x 10%)	5,000
To Capital A/c [2:1:1] P 23,800 Q 11,900 R 11,900	**47,600**		
Total	**55,000**	**Total**	**55,000**

2. Partners' Capital Account for the period 1.4.2012 – 31.3.2013

Particulars	P	Q	R	Particulars	P	Q	R
To Drawings A/c (1,000 × 12)	12,000	12,000	12,000	By Opening Balance b/d	50,000	30,000	–
To bal c/d (before capital adjustment)	1,18,800	67,900	33,650	By Goodwill A/c (75,000 in 3 :2)	45,000	30,000	–
				By Reserves A/c (20,100 in 3:2)	12,000	8,000	–
				By Cash A/c – (Capital Contribution)	–	–	15,000
				By Cash A/c - (WN 2) (Goodwill Contribution)	–	–	18,750
				By Profit & Loss A/c (WN 1)	23,800	11,900	11,900
Total	**1,30,800**	**79,900**	**45,650**	**Total**	**1,30,800**	**79,900**	**45,650**
To Cash (bal. fig.)	8,625	12,813	-	By bal b/d	1,18,800	67,900	33,650
To bal c/d (WN 3)	1,10,175	55,087	55,088	By Cash (bal. fig)	–	–	21,438
Total	**1,18,800**	**67,900**	**55,088**	**Total**	**1,18,800**	**67,900**	**55,088**

3. Balance Sheet of the Partnership Firm as on 31.3.2013

Liabilities		₹	Assets		₹
Capital			Goodwill		75,000
P	1,10,175		Machinery	60,000	
Q	55,087		**Less:** Depreciation	(6,000)	54,000
R	55,088	2,20,350	Furniture	10,000	
Q's Loan		15,000	**Less:** Depreciation	(500)	9,500
Outstanding Interest on Q's Loan		900	Investment		50,000
Creditors		20,000	Accrued Income on Investment		5,000
			Stock		15,000
			Debtors		30,000
			Cash **(WN 4)**		17,750
Total		**2,56,250**	**Total**		**2,56,250**

4. Balance Sheet of the Company as on 01.04.2013

	Particulars as at 1st April			Note	Current Year	Previous Year
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	Share Capital			**1**	2,20,350	
(2)	**Non-Current Liabilities:**				–	
(3)	**Current Liabilities:**					
	(a) Short-term Borrowings					
	Q's Loan				15,000	
	(b) Trade Payables (Sundry Creditors)				20,000	
	(c) Other Current Liabilities					
	Outstanding Interest				900	
	Total				**2,56,250**	
II	**ASSETS**					
(1)	**Non-Current Assets :**					
	Fixed Assets:					
	Tangible Assets					
		Machinery	54,000			
		Furniture	9,500	**2**	63,500	
	Intangible Assets					
		Goodwill			75,000	
(2)	**Current Assets:**					
	(a) Current Investments				50,000	
	(b) Accrued Interest				5,000	
	(c) Inventories (Stock-in-Trade)				15,000	
	(d) Trade Receivables (Sundry Debtors)				30,000	
	(e) Cash and Cash Equivalents (Cash in Hand)				17,750	
	Total				**2,56,250**	

Notes to the Balance Sheet:

1. **Share Capital:**

Authorized Capital [……… No of Shares of Face Value Rs. …… each] xxxx

Issued & Called up Equity Share Capital […… No of Shares of Face Value Rs. …… each] 2,20,350

[out of the above …… Shares are issued for consideration other than cash]

2. Schedule of Fixed Assets

Particulars	Current Year	Previous Year
Machinery (60,000 – 6,000)	54,000	
Furniture (10,000) – 500)	9,500	
Total	**63,500**	

Working Notes :

1. New Profit Sharing Ratio : P:Q:R = 2:1:1

2. Goodwill = 3 years' purchase of 5 years' Average Profits, computed as under –

(a) Average Profits

Year	Actual Profits	Salary (not to be paid in future)	Abnormal Profits / (Losses)	Adjusted Profits
31.3.08	25,000	750 × 12 = 9,000	Abnormal Profits = 40,000	25,000+ 9000 – 40,000 = (6,000)
31.3.09	12,500	9,000	–	12,500 + 9,000 = 21,500
31.3.10	(2,500)	9,000	Loss due to Strike = 20,000	(2500)+ 9,000 + 20,000 = 26,500
31.3.11	35,000	9,000	–	35,000 + 9,000 = 44,000
31.3.12	30,000	9,000	–	30,000 + 9,000 = 39,000
			Total	**1,25,000**

Average Profits: $\frac{1,25,000}{5}$ = Rs. 25,000

So, Goodwill = Rs. 25,000 × 3 = **Rs. 75,000**

Hence, Cash brought in by R towards Goodwill (1/4th Share) = 75,000 × ¼ = Rs. 18,750

3. Determination of Total Capital and Distribution in 2:1:1 Ratio:

(a) Total Capital of the Firm = [P Rs. 1,18,800 + Q Rs. 67,900 + R Rs. 33,650] = Rs. 2,20,350

(b) Closing Balances must be in 2:1:1 ratio, i.e.

P: 2,20,350 × $\frac{2}{4}$ = 1,10,175 Q: 2,20,350 × $\frac{1}{4}$ = 55,087 R: 2,20,350 × $\frac{1}{4}$ = 55,088

4. Determination of Cash Balance on 31.03.2013

Dr. **Cash A/c** **Cr.**

Particulars	₹	Particulars	₹
To balance b/d	5,000	By Drawings (1,000 × 12 Partners × 3)	36,000
To R's Capital A/c – Cash	15,000	By Machinery (60,000 – 54,000	6,000
To R's Capital A/c – Goodwill	18,750	By Furniture (10,000 – 5,000)	5,000
To Stock (20,000 – 15,000)	5,000	By Debtors (30,000 – 21,000)	9,000
To Trading Profits	50,000	By Creditors (40,000 – 20,000)	20,000
To R's Capital A/c (Adjustment)	21,438	By P's Capital A/c	8,625
		By Q's Capital A/c	12,813
		By Balance c/d **(Bal. Fig.)**	**17,750**
Total	**1,15,188**	**Total**	**1,15,188**

Ans.3(a)

Statement Showing Computation of Underwriters' Liability [No. of Shares]

	Particulars	X	Y	Z	Total
	Gross Liability	90,000	37,500	22,500	1,50,000
Less:	Marked Applications	(15,000)	(30,000)	(7,500)	(52,500)
Less:	Unmarked Applications [12:5:3]	(13,500)	(5,625)	(3,375)	(22,500)
Less:	Firm Underwriting	(12,000)	(4,500)	(15,000)	(31,500)
		49,500	(2,625)	(3,375)	43,500
Adjust:	Surplus of Y and Z transferred to X	(6,000)	2,625	3,375	Nil
	Net liability (Excluding firm underwriting)	43,500	—	—	43,500
Add:	Firm Underwriting	12,000	4,500	15,000	31,500
	Net liability (Including firm underwriting)	**55,500**	**4,500**	**15,000**	**75,000**
	Amount Due to Company at ₹ 20 per Share (₹)	11,10,000	90,000	3,00,000	15,00,000
Less:	Commission due to Underwriters [Gross Liability × (20 × 5%)] (₹)	(90,000)	(37,500)	(22,250)	(1,50,000)
	Amount receivable from Underwriters (₹)	**10,20,000**	**52,500**	**2,77,500**	**13,50,000**

2. Journal Entries in the books of the Company

	Particulars		Dr. (₹)	Cr. (₹)
1.	Underwriting Commission A/c	Dr.	1,50,000	
	To X A/c			90,000
	To Y A/c			37,500
	To Z A/c			22,500
	(Being Underwriting Commission on the Shares underwritten)			
2.	X A/c *	Dr.	11,10,000	
	Y A/c *	Dr.	90,000	
	Z A/c *	Dr.	3,00,000	
	To Share Capital A/c [(55,500 + 4,500 + 15,000) x ₹ 10]			7,50,000
	To Securities Premium A/c			7,50,000
	(Being Shares including Firm Underwriting Shares allotted to Underwriters)			
3.	Bank A/c	Dr.	13,50,000	
	To X A/c			10,20,000
	To Y A/c			52,500
	To Z A/c			2,77,750
	(Being receipt of balance amount payable after Commission due to Underwriters)			

***** It has been assumed that application for firm underwriting is not sent by underswriters, so entry for issuing sharis is inclusive of shares for firm underwriting.

Ans.3(b)

1. Computation of Expense to be recognised

Particulars	
(a) Fair Value of Option per Share = MPS on Grant Date ₹ 120 less Exercise Price ₹ 50	₹ 70
(b) No. of Shares vesting under the Scheme	16,000 Shares
(c) Total Fair Value of Options = 16,000 options × ₹ 70, to be recognised as Expense	₹ 11,20,000

2. Journal Entry for ESOP

Particulars		Dr.(₹)	Cr. (₹)
Bank A/c (16,000 Shares × ₹ 50)	Dr.	8,00,000	
Employees Compensation Expense A/c (16,000 Shares × ₹ 70)	Dr.	11,20,000	
To Equity Share Capital A/c (16,000 Shares × ₹ 10)			1,60,000
To Securities Premium A/c [16,000 Shares × ₹ (120 – 10)]			17,60,000
(Being 16,000 Shares allotted to Employees under ESOP at a Premium of ₹ 110 per Share)			

Ans.4

1. Journal Entries

Particulars		Dr.(₹)	Cr. (₹)
Preference Share Capital (2,500 × ₹ 100) To Preference Share Capital (2,500 × ₹ 25) To Capital Reduction A/c (Being Preference Shares of ₹ 100 each reduced to ₹ 25 each, and balance transferred to Reconstruction A/c, as per approved Scheme of Reconstruction dated……..)	Dr.	2,50,000	 62,500 1,87,500
Preference Share Capital (2,500 × 25)[Face Value ₹ 25 each] To Preference Share Capital (625 × 100) [Face Value ₹ 100 each] (Being re–organisation of 2,500 Preference Shares of ₹ 25 each into 625 Preference Shares of ₹ 625 each, as per approved Scheme of Reconstruction dated…….)	Dr.	62,500	 62,500
Equity Share Capital (5,000 × ₹ 100) To Equity Share Capital (5,000 × ₹ 20) To Capital Reduction A/c (Being Equity Shares of ₹ 100 each reduced to ₹ 20 each, and balance transferred to Reconstruction A/c, as per approved Scheme of Reconstruction dated…….)	Dr.	5,00,000	 1,00,000 4,00,000
Equity Share Capital (5,000 × ₹ 20)[Face Value 20 each] To Equity Share Capital (1,000 × ₹ 100) [Face Value ₹ 100 each] (Being re–organisation of 5,000 Equity Shares of ₹ 20 each into 1,000 Equity Shares of ₹ 100 each, as per approved Scheme of Reconstruction dated……)	Dr.	1,00,000	 1,00,000
8% Debentures A/c To Freehold Property A/c To Capital Reduction A/c (Being transfer of title deed on Freehold Property to Debenture holders of the Company, in part settlement, as pet approved Scheme of Reconstruction dated….)	Dr.	2,50,000	 2,00,000 50,000
Freehold Property A/c (6,00,000 – 2,00,000) To Capital Reduction A/c (Being Revaluation of Freehold Property, as per approved Scheme of Reconstruction dated……)	Dr.	4,00,000	 4,00,000
Loan from Director's A/c To Capital Reduction A/c (Being Directors' Loan claim waived off in full, as per approved Scheme of Reconstruction dated……)	Dr.	3,00,000	 3,00,000
Capital Reduction A/c To Stock A/c To Provision for Bad Debt, A/c To Profit & Loss A/c To Trademark A/c To Goodwill A/c To Deferred Revenue Expenditure A/c (Being writing off of losses, providing for bad debts, and reduction in the value of asset as per approved Scheme of Reconstruction dated…….)	Dr.	12,37,500	 50,000 12,500 10,00,000 50,000 1,00,000 25,000
Capital Reduction A/c To Capital Reserve A/c (Being balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	1,00,000	 1,00,000

2. Reconstruction A/c

Dr. Particulars	₹	Particulars	Cr. ₹
To Stock A/c	50,000	By Preference Share Capital A/c	1,87,500
To Provision for Bad Debts A/c	12,500	By Equity Share Capital A/c	4,00,000
To Profit & Loss A/c	10,00,000	By 8% Debentures A/c	50,000
To Trademark A/c	50,000	By Freehold Property A/c	4,00,000
To Goodwill A/c	1,00,000	By Loan from Directors A/c	3,00,000
To Deferred Revenue Expenditure A/c	25,000		
To Capital Reserve A/c **(balancing fig.)**	**1,00,000**		
Total	**13,37,500**	**Total**	**13,37,500**

4. Balance Sheet of Bad Luck Ltd (and reduced) as on 31st March 2013 (after Reconstruction)

	Particulars as at 31st March	Note	Current Year	Previous Year
I	**EQUITY AND LIABILITIES:**			
(1)	Shareholders' Funds:			
	(a) Share Capital	**1**	1,62,500	
	(b) Reserves and Surplus			
	Capital Reserve		1,00,000	
(2)	**Non–Current Liabilities:**			
	Long Term Borrowings			
	8% Debentures (5,00,000 — 2,50,000)		2,50,000	
(3)	**Current Liabilities:**			
	(d) Short Term Borrowings			
	Bank Overdraft		2,00,000	
	(e) Trade Payables (Sundry Creditors)		2,50,000	
	Total		**9,62,500**	
II	**ASSETS**			
(1)	Non–Current Assets			
	Fixed Assets:			
	Tangible Assets	**2**	7,50,000	
(2)	**Current Assets:**			
	(a) Current Investments			
	(b) Inventories			
	Stock–in–Trade (1,50,000 – 50,000) (Write off under reconstruction)		1,00,000	
	(c) Trade Receivables			
	Sundry Debtors (1,25,000 – 12,500) (Write off under reconstruction)		1,12,500	
	Total		**9,62,500**	

Note 1: Share Capital

Particulars		Current Year	Previous Year
Authorised:	……………… Equity Shares of ₹ 100 each ……………..Preference Shares of ₹ 100 each		
Issued, Subscribed & Paid up:	1,000 Equity Shares of ₹ 100 each 625 8% Preference Shares of ₹ 100 each	1,00,000 62,500	
Total		**1,62,500**	

Note 2: Tangible Assets

Particulars	Current Year	Previous Year
(a) Freehold Property (Net Book Value 4,00,000 + Increase under Reconstruction 4,00,000) – Takeover under Reconstruction ₹ 2,00,000 (b) Plant	6,00,000 1,50,000	
Total	**7,50,000**	

Ans.5(a)

Form B – RA –Revenue Account for the year ended 31st March 2013

	Particulars	Schedule	Current Year	Previous Year
1. **2.** **3.**	Premiums Earned (Net) Profit on Sale of Investments Interest, Dividend & Rent – Gross	1	14,90,500 15,000 75,000	
	Total (A)		**15,80,500**	
1. **2.** **3.**	Claims Incurred (Net) Commission Operating Expenses related to Insurance Business (4,20,000 – 45,000)	2 3 4	10,12,500 1,75,000 3,75,000	
	Total (B)		**15,62,500**	
	Operating Profit/(Loss) from Fire Business (A – B)		18,000	
	Appropriations		NIL	
	Total (C)		**18,000**	

Schedule 1 – Premium Earned (Net)

	Particulars		Current Year	Previous Year
	Premium from Direct Business Written		16,80,000	
Less:	Premium on Re -Insurance ceded		(1,12,500)	
	Net Premium		**15,67,500**	
Add:	Adjustment for Changes in Reserve for Unexpired Risks	**(Note)**	1,23,000	
Less:	Adjustment for Changes in Additional Reserve	**(Note)**	(2,00,000)	
		Total Premium Earned (Net)	**14,90,500**	

Note: Adjustment for Changes in Reserve for Unexpired Risks is computed as under –

	Particulars	Reserve	Additional Reserve
 Less:	Closing Balance required Opening Balance available	40% of 15,67,500 = 6,27,000 (7,50,000)	3,50,000 (1,50,000)
	Amount to be transferred to/ (reversed from) Reserve for the year	**(1,23,000)**	**2,00,000**

Note: The amounts of Rs. 6,27,000 (40% of Net Premium) and Rs. 3,50,000 are taken as required Closing Balance of Reserve/ Additional Reserve for Unexpired Risks. Hence, additional amount required is added/ deducted from Net Premium Income.

Schedule 2 – Claims Incurred (Net)

Particulars	Current Year	Last Year
Claims Paid - Direct (Given 9,60,000 + Legal Expenses thereon 45,000) **Less:** Re - Insurance Recoveries (of Claims)	10,05,000 (30,000)	
Net Claims Paid **Add:** Claims Outstanding at the end of the year **Less:** Claims Outstanding at the beginning of the year	9,75,000 1,35,000 (97,500)	
Total Claims Incurred	**10,12,500**	

Ans.5(b)

1. Computation of Rebate pertaining to period after Balance Sheet date

Due Date	Rate of interest	Amount (₹)	No. of Days after 31.03.2012	Rebate (₹)
(1)	(2)	(3)	(4)	(5) = (3) × (2) × $\frac{(4)}{365}$
05.06.2013	12%	18,25,000	30 + 31 + 5 = 66	39,600
12.06.2013	12%	50,00,000	30 + 31 + 12 = 73	1,20,000
25.06.2013	14%	28,20,000	30 + 31 + 25 = 86	93,021
06.07.2013	16%	40,60,000	30 + 31 + 30 + 6 = 97	1,72,633
Total				**4,25,254**

2. Computation of Amount to be credited to Profit & Loss A/c

	Particulars	₹
	Transfer from Rebate on Bills Discounted (Opening Balance on 01.04.2012)	2,21,600
Add:	Discount Received	10,56,650
		12,78,250
Less:	Rebate on Bills Discounted as on 31.03.2013	(4,25,254)
	Amount to be Credited to P& L A/c	**8,52,996**

3. Journal Entries

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	Rebate on Bills Discounted A/c	Dr.	2,21,600	
	To Discount Received A/c			2,21,600
	(Being transfer of Opening Balance in Rebate A/c to Discount Received)			
2.	Discount Received A/c	Dr.	4,25,254	
	To Rebate on Bills Discounted A/c			4,25,254
	(Being provision for Unexpired Discount Charges as on 31.03.2013)			
3.	Discount Received A/c	Dr.	8,52,996	
	To Profit and Loss A/c			8,52,996
	(Being Discount Earned Income for the year credited to P&L A/c)			

Ans.6

1. Conversion of New York Branch Trial Balance in Rupees (Rs. **in 000's**)

Particulars	Dr. $	Cr.$	1 $ = ₹	Dr.	Cr.
Plant & Machinery (Cost)	100		₹ 45	4500	
Plant & Machinery Depreciation Reserve		20	₹ 45		900
Debtors / Creditors	60	20	₹ 55	3300	1100
Stock (1st April)	25		₹ 50	1250	
Cash & Bank Balances	4		₹ 55	220	
Purchases / Sales	25	125	₹ 52	1300	6500
Goods Received from H.O (As Given)	30		–	1500	
Wages & Salaries	18		₹ 52	936	
Rent	6		₹ 52	312	
Office Expenses	12		₹ 52	624	
Commission Receipts		100	₹ 52		5200
HO Current A/c		15			800
Exchange Loss **(balancing figure)**				**558**	
Net Total	**280**	**280**		**14,500**	**14,500**

Closing Stock = $ 10 (10 × Rs. 55) = Rs. 550 (or) 0.55 (in Rs. 000's)

2. Trading and Profit & Loss Account for the year ended 31st March 2013 (Rs. in 000's)

Particulars	HO	Branch	Particulars	HO	Branch
To Opening Stock	250	1,250	By Sales	600	6,500
To Purchases	275	1,300	By Goods sent to Branch	1,500	
To Goods recd. from HO		1,500	By Closing Stock	200	0.55
To Gross Profit c/d	**1,775**	**2,450.55**			
Total	**2,300**	**6500.55**	**Total**	**2,300**	**6,500.55**
To Wages & Salaries	100	936	By Gross Profit b/d	1,775	2,450.55
To Rent	–	312	By Commission Receipts	275	5,200
To Office Expenses	25	624			
To Provision for Doubtful					
HO (5% of 500)	25				
Branch (5% of 3,300)		165			
To Depreciation **(WN 1)**	380	720			
To Net Profits c/d	**1,520**	**4,893.55**			
Total	**2,050**	**7,650.55**	**Total**	**2,050**	**7,650.55**

Particulars	HO	Particulars	HO
To Exchange Loss **(From Trial Balance)**	558	By Net Profits b/d – H 1,520 – Branch 4,893.55	6,413.55
To Managing Director's Salary	50	By Branch Stock Reserve **(WN 2)**	64.89
To Net Profits (carried to Balance Sheet)	5,870.44		
Total	**6,478.44**	**Total**	**6,478.44**

Note: In case of a Company, Schedule VI (Revised) Requirements are applicable for Statement of Profit and Loss.

W.N.1. Computation of Depreciation (Rs. in 000's)

Particulars	Rate of Deprn.	Cost	Depn. Res.	Net Block	Depn.
Building – Head Office	10%	1,000	200	800	80
Plant & Machinery at Head Office	20%	2,000	500	1,500	300
Sub –Total Depreciation for HO		3,000	700	2,300	380
Plant & Machinery at Branch Office	20%	4,500	900	3,600	720
Total					**1,100**

Note: Of the above, Depreciation for HO = 80 + 380 = 460, and Depreciation for Branch = 252.

W.N.2. Computation of Branch Stock Reserve

	Particulars	₹ 000's
	Closing Stock (10 × 55)	0.55
	Reserve on Closing Stock $(0.55 \times \frac{25}{125})$	0.11
Less:	Opening Branch Stock Reserve (as on 1st April)	(65)
	Reversal of Stock Reserve	**(64.89)**

Ans.7(a)

Situation	Treatment
Cheques collected by the Marketing Personnel of the Company from the Stockists on or before 31st March	Marketing Personnel, being employees of the Company, have collected the amount before 31st March, and it constitutes a "receipt" by the Company, before the Balance Sheet date. Subsequent realization in April provides additional evidence of the matter, and hence the Company can consider this as an "Adjusting Event" and account for such items as "Cheques in Hand".
Cheques sent by the Stockists by through Courier on or before 31st March	The Company has **not "received"** the Cheques before 31st March, and hence, mere sending of the cheques by the Stockists through Courier does not pertain to conditions prevailing on the Balance Sheet date. This amount should not be adjusted in the accounts.

Ans.7(b)

1. **Meaning of Monetary Items:** Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
2. Foreign Currency Monetary Items are to be **recognized** at each Balance Sheet date as follows–
   – Closing rate, or
   – Amount which is likely to be realized from (for Assets) and required to disburse (for Liabilities) such item at the Balance Sheet date.
3. **Classification:**
   (i) Share Capital: Non Monetary Item,amount to be paid is not fixed /determinable
   (ii) Trade Receivables: Monetary Item ,assets to be received in fixed or determinable amounts.
   (iii) Investments: Non Monetary Item**,** amount to be received is not fixed / determinable .
   (iv) Fixed Assets: Non Monetary Item,amount to be received is not fixed / determinable .

Ans.7(c)

Computation of Unrealized Profits (in Rs.)

Particulars of Transfer	A	B	C	Total
From Dept. A to B & C at 50% on cost and 20% on Cost respectively.	–	$45{,}000 \times \frac{50}{150} = 15{,}000$	$42{,}000 \times \frac{20}{120} = 7{,}000$	**22,000**
From Dept. B to A & C at 25% on Sales and 15% on Sales respectively.	$40{,}000 \times \frac{25}{100} = 10{,}000$	–	$72{,}000 \times \frac{15}{100} = 10{,}800$	**20,800**
From Dept. C to A & B at 30% on cost and 40% on Cost respectively.	$39{,}000 \times \frac{30}{130} = 9{,}000$	$42{,}000 \times \frac{40}{140} = 12{,}000$	–	**21,000**
Total Unrealized Profits	**19,000**	**27,000**	**17,800**	**63,800**

Ans.7(d)

When a partner is unable to pay his debt due to the firm he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision in the English case of **Garner vs. Murray.**

According to this decision, solvent partners have to bear the loss due to insolvency of a partner and have to categorically put that the normal loss on realisation of assets to be borne by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in the **capital ratio.**

Capital Ratio on Insolvency :

If they are maintaining capitals at fixed amounts then insolvency loss is distributed in the ratio of fixed capitals.

But if capitals are not fixed ,capital ratio will be determined after adjusting all the reserves and accumulated profits to the date of dissolution, all drawings to the date of dissolution, all interest on capitals and on drawings to the date of dissolution but before adjusting profit or loss on Realisation Account.

If some partner is having a debit balance in his Capital Account and is not insolvent then he cannot be called upon to bear loss on account of the insolvency of other partner.

Garner vs. Murray not applicable

If the partnership deed provides for a specific method to be followed in case of insolvency of a partner, the provisions as per deed should be applied.

Ans.7(e)

The **Qualitative Characteristics** are attributes that improve the usefulness of information provided in financial statements. Financial statements should observe and maintain the following five qualitative characteristics as far as possible within limits of reasonable cost/ benefit.

1. **Understandability :** The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more information one discloses the better it is. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure.
2. **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant.
   The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.
3. **Reliability :** To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless:
   (a) Transactions and events reported are faithfully represented.
   (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'.
   (c) The reporting of transactions and events are neutral, i.e. free from bias.
   (d) Prudence is exercised in reporting uncertain outcome of transactions or events.
4. **Comparability :** Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison.
5. **True and Fair view :** Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise.