Guideline Answers for Accounting Group – I

1(a) Explain the levels of Non–corporate enterprises classified under AS–1. [5 Marks]

1. **Classification:** Non–Corporate Entities (NCEs) are classified into three categories – Level I, Level II & Level III, for the purpose of application of Accounting Standards – **(1/2 M Each)**

Level I Entities	NCEs which fall in any one or more of the following categories, at the end of relevant accounting period – 1. Whose Equity or Debt Securities are listed, or in the process of listing on any Stock Exchange, whether in India or outside India. **(1/2 M)** 2. Banks (including Co–operative Banks), Financial Institutions, or Entities carrying on Insurance business. **(1/2 M)** 3. All Commercial, Industrial and Business Reporting Entities, whose Turnover exceeds ` 50 Crores for the immediately preceding accounting year. [**Note:** Turnover does not include "Other Income."] **(1/2 M)** 4. All Commercial, Industrial and Business Reporting Enterprises having Borrowings (including Public Deposits) in excess of ` 10 Crores at any time during the preceding accounting year. **(1/2 M)** 5. Holding and Subsidiary Entities of any one of the above. **(1/2 M)**
Level II Entities	NCEs which are not Level I Entities, but fall in any one or more of the following categories – 1. All Commercial, Industrial and Business Reporting Enterprises, whose Turnover for the immediately preceding accounting year, exceeds **` 1 Crore (w.e.f from 01.04.2012),** but does not exceed ` 50 Crores. [**Note:** Turnover does not include "Other Income".] **(1/2 M)** 2. All Commercial, Industrial and Business Reporting Enterprises having Borrowings (including Public Deposits) in excess of ` 1 Crore, but not in excess of ` 10 Crores, at any time during the preceding accounting year. **(1/2 M)** 3. Holding and Subsidiary Entities of any one of the above. **(1/2 M)**
Level III Entities	NCEs which are not covered under Level I and Level II. **(1/2 M)**

Note: Level II and Level III Entities are considered as **Small and Medium Sized Enterprises (SMEs).**

1(b) Can PT Ltd, a Wire Netting Company, while valuing its Finished Stock at the year end include interest on Bank Overdraft as an element of cost, for the reason that Overdraft has been taken specifically for the purpose of financing Current Assets like Inventory and for meeting day to day working expenses? [5 Marks]

1. **Nature of Interest:** As per AS–2, "Interest and other Borrowing Costs are usually considered as **not** relating to bringing the inventories to their present location & condition, and hence usually, **excluded** in the cost of inventories." **(2 M)**
2. **Qualifying Assets: AS – 16** identifies inventories which require a substantial period of time to bring them to a saleable condition as a Qualifying Asset, and permits capitalization of borrowing costs directly attributable to the asset as part of the Cost of the Asset. **(2M)**
3. **Conclusion:** In the given case, PT Ltd can capitalize the interest cost on Bank Overdraft, **only** if its Inventories are in the nature of a Qualifying Asset as per AS–16. Otherwise, the entire amount shall be treated as **expense**. **(1 M)**

1(c) Notes on Accounts of a Company reads: "No depreciation provided on a Machinery costing ` 50 Lakhs imported three years back, since it is yet to be put into use". [5 Marks]

1. **Meaning:** As per AS – 6, Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, **efflux of time** or obsolescence through & market changes. Depreciation is also caused by efflux of time. Hence, Depreciation should be charged on Assets, whether put to use or not. **(2 M)**

2. **Provision of Depreciation: (2 M)**
   (a) The machinery must have been imported to be used for business purposes. The need for using the machinery may not have arisen but that does not imply that the useful life of the machinery has not been affected.
   (b) Non–provision of depreciation on the ground that the machinery has not been put to use is not tenable. So, **depreciation must have been provided for all the three previous years.**
   (c) Provision of depreciation is essential to show a true and fair picture of the Financial Statements.

3. **Conclusion:** If no provision is made for depreciation, then such fact along with the quantum of arrears of depreciation computed in accordance with the Companies Act, should be disclosed. **(1 M)**

1(d) Nilakanta Construction Co. Ltd undertook a contract on 1st January to construct a building for `80 Lakhs. The Company found on 31st March that it had already spent `58,50,000 on the construction. Prudent estimate of additional cost for completion was ` 31,50,000.

What amount should be charged to Revenue and what amount of Contract Value to be recognized as Turnover in the accounts for the year ended 31st March as per provisions of AS–7? [5 Marks]

Estimated Total Contract Costs = Cost till date + Further Costs=` 58,50,000 + ` 31,50,000 = **` 90,00,000**
(1/2M)

Percentage of Completion = $\dfrac{\text{Cost incurred till date}}{\text{Estimated Total Costs}} = \dfrac{\grave{}\ 58.50}{\grave{}\ 90.00}$ = **65% (1M)**

Total Expected Loss to be provided for = Contract Price (–) Total Costs = ` 80 (–) ` 90 = **` 10,00,000. (1/2M)**

Contract Revenue as per Para 21 = 65% of ` 80 Lakhs = ` 52,00,000 (Contract Revenue to be recognized) **(1M)**

Less: Contract Costs as per Para 21 = ` 58,50,000 (Contract Expenses to be recognized) **(1/2M)**

Loss on Contract = ` 6,50,000 **(1/2M)**

Less: Further provision required in respect of expected loss = **` 3,50,000 (Bal.Figure) (1M)**

Expected Loss recognised as per Para 35 = ` 10,00,000 (Loss on Contract to be recognized)

2(a) The Balance Sheet of Amitabh, Abhisekh and Amrish as at 31.12.2013 stood as follows: [16 Marks]

Capital and Liabilities		`	Properties and Assets		`
Capital Accounts:			**Non–Current Assets: Goodwill**		**37,800**
– **Amitabh**	**60,000**		**Land & Buildings**		**74,000**
– **Abhisekh**	**40,000**		**Investments**		**10,000**
– **Amrish**	**40,000**	**1,40,000**	**Life Policy (at Surrender Value):**		
General Reserve		**8,000**	– **Amitabh**		**2,500**
Investment Fluctuation Reserve		**2,400**	– **Abhisekh**		**2,500**
			– **Amrish**		**1,000**
Current Liabilities:			**Current Assets:**		
Creditors		**25,800**	**Stock**		**20,000**
			Debtors	**20,000**	
			Less: Provisions for Doubtful Debts	**(1,600)**	**18,400**
			Cash & Bank Balances		**10,000**
Total		**1,76,200**	**Total**		**1,76,200**

Amrish died on 31st March 2013, due to this reason the following adjustments were agreed upon:

- **Land and Buildings be appreciated by 50%.**
- **Investments be valued at 6% less than the cost.**
- **All Debtors (except 20% which are considered as doubtful) were good.**
- **Stock to be reduced to 94%.**
- **Goodwill to be valued at 1 year's purchase of the average profits of the past five years.**

- **Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.**

The profits of the last five years are as follows:

Year	2008	2009	2010	2011	2012	Total
Amount(`)	23,000	28,000	18,000	16,000	20,000	1,05,000

The Life Policies have been shown at their Surrender Values, representing 10% of the sum assured in each case. The annual premium of ` 1,000 is payable every year on 1st August.

Give the necessary Journal Entries in the books of account, and prepare the Balance Sheet of the reconstituted Firm.

Solution: **1. Journal Entries (1/2M each= 5 ½ M)**

S.No	Particulars	Dr. (`)	Cr. (`)
1.	Insurance Company A/c Dr. To Amrish's Life Policy A/c (Being amount receivable from Insurance Company on death of Amrish) (Sum Assured = Surrender Value ÷ 10% = 1,000 ÷ 10%)	10,000	 10,000
2.	Life Policy A/c Dr. To Amitabh's Capital A/c To Abhisekh's Capital A/c To Amrish's Capital A/c (Being transfer of balance in Amrish's Life Policy A/c to all Partner's Capital A/cs in PSR)	9,000	 3,000 3,000 3,000
3.	Amitabh's Capital A/c Dr. Abhisek's Capital A/c Dr. Amrish's Capital A/c Dr. To Goodwill A/c (Being Goodwill standing in the books written off fully in PSR)	12,600 12,600 12,600	 37,800
4.	Land & Buildings A/c (50% of 74,000) Dr. To Revaluation A/c (Being increase in the value of assets recorded)	37,000	 37,000
5.	Investment Fluctuation Reserve A/c Dr. To Investment A/c (Being reduction in cost of investment adjusted through Investment Fluctuation Reserve) **Note:** It is assumed that fall in Investment Value is adjusted though Reserve first and balance Reserve is distributed to Partners. Alternatively, fall in Investment Value can be adjusted in Revaluation Account and entire Reserve may be distributed to Partners.	600	 600
6.	Revaluation A/c Dr. To Stock A/c To Provision for Doubtful Debts A/c (Being the fall in value of Stock recorded and additional provision for Debtors, i.e. Required 20% of 20,000 **Less** Available 1,600)	3,600	 1,200 2,400
7.	Revaluation A/c Dr. To Amitabh's Capital A/c To Abhisek's Capital A/c To Amrish's Capital A/c	33,400	 11,133 11,133 11,134

S.No	Particulars	Dr. (`)	Cr. (`)
	(Being the transfer of profit on revaluation, rounding off adjustment in Amrish's A/c)		
8.	Amitabh's Capital A/c Dr.	3,500	
	Abhisek's Capital A/c Dr.	3,500	
	To Amrish's Capital A/c		7,000
	(Being Goodwill share of Amrish, adjusted through Capital Accounts of remaining Partners)		
	G/w = 1 year purchase × Avg Pfts of 5 years = $\frac{23,000 + 28,000 + 18,000 + 16,000 + 20,000}{5} \times 1 =$ ` **21,000.** Amrish's Share = $1/3^{rd}$ = ` 7,000, adjusted in Gain Ratio, i.e. equally.		
9.	General Reserve A/c Dr.	8,000	
	Investment Fluctuation Reserve A/c (` 2,400 – ` 600) Dr.	1,800	
	To Amitabh's Capital A/c		3,267
	To Abhisek's Capital A/c		3,267
	To Amrish's Capital A/c		3,266
	(Being the transfer of Accumulated Profits to Capital Accounts)		
10.	Profit & Loss Suspense A/c Dr.	1,500	
	To Amrish's Capital A/c		1,500
	(Being Amrish's share of profit upto date of death, credited to his A/c) (See **Note**)		
11.	Amrish's Capital A/c Dr.	53,300	
	To Amrish's Executor A/c		53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)		

Note: Average Annual Profit (of 3 years) = $\frac{18,000 + 16,000 + 20,000}{3 \text{ years}}$ = ` 18,000.

Amrish's Share = ` 18,000 × $\frac{3}{12}$ (for 3 months) × $\frac{1}{3}$ (PSR) = ` **1,500. (1/2M)**

2. Revaluation Account (1M)

Particulars	`	Particulars	`
To Stock	1,200	By Land & Building	37,000
To Provision for Doubtful Debts	2,400		
To Capital Account – Profit transferred (old PSR)			
– Amitabh 11,133			
– Abhisekh 11,133			
– Amrish 11,134	**33,400**		
Total	**37,000**	**Total**	**37,000**

3. Partners' Capital Account (½ M each – 5 ½ M)

Particulars	Amitabh	Abhisekh	Amrish	Particulars	Amitabh	Abishekh	Amrish
To Goodwill	12,600	12,600	12,600	By balance b/d	60,000	40,000	40,000
To Amrish A/c	3,500	3,500		By Life Policy	3,000	3,000	3,000
To Amrish's Executors' A/c	–	–	**53,300**	By Amitabh(G/W adjt)	–	–	3,500
(bal. fig.)				By Abhisek(G/W adjt)	–	–	3,500
				By P&L Suspense	–	–	1,500
				By Revaluation Gain	11,133	11,133	11,134
				By General Reserve	2,667	2,667	2,666
To balance c/d **(bal. fig.)**	**61,300**	**41,300**	–	By Investment Fluctuation Reserve	600	600	600
Total	**77,400**	**57,400**	**65,900**	**Total**	**77,400**	**57,400**	**65,900**

4. Balance Sheet as at 31st March 2012 (4 M)

Capital and Liabilities		`	Properties and Assets		`
Capital Account:			**Non–Current Assets:**		
– Amithabh	61,300		Land & Building		1,11,000
– Abhisekh	41,300	1,02,600	Life Policy: Amitabh	2,500	
Surplus (P&L Suspense A/c)		(1,500)	Abhisekh	2,500	5,000
Non–Current Liabilities:			Investments		9,400
Amrish's Executor's A/c		53,300	**Current Assets:** Stock		18,800
Current Liabilities:			Debtors	20,000	
Sundry Creditors		25,800	**Less:** Provision	(4,000)	16,000
			Insurance Company		10,000
			Cash & Bank Balances		10,000
Total		**1,80,200**	**Total**		**1,80,200**

Alternate Assumptions possible are:

1. Goodwill might be written off only for the difference amount of Rs.17,400 among all the partners. Then Rs.21,000 can be written off among the balance partners.
2. Profit and Loss till the date of death can be calculated for all the partners till the date of death.

3(a) The following is the Profit and Loss Account of the Lalataksha Papers Ltd for the year ending 31st March: [4 Marks]

Particulars	`	Particulars		`
To Admn. Selling & Finance Expenses	**5,75,804**	**By Balance b/d**		**4,12,632**
To National Defence Fund	**20,000**	**By Balance from Trading Account**		**38,35,414**
To Directors Fees	**54,780**	**By Interest on Investments**		**10,964**
To Interest on Debentures	**21,380**	**By Transfer Fee**		**537**
To Managing Director's Remuneration	**3,70,500**	**By Profit on Sale of Plant**		
To Depreciation of Fixed Assets	**4,69,713**	**Amount realized**	**40,000**	
To Provision for Taxation	**11,40,000**	**Less: Book Value**	**(32,000)**	**8,000**
To General Reserve	**5,00,000**			
To Debenture Sinking Fund	**4,800**			
To Investment Revaluation Reserve	**9,800**			
To Balance c/d	**11,00,770**			
Total	**42,67,547**	**Total**		**42,67,547**

As an Auditor you are required to comment on the Managerial Remuneration.

Solution: **1. Computation of Net Profits (3M)**

	Particulars	`	`
	Balance from Trading Account		38,35,414
Add:	Interest on Investments		10,964
	Transfer Fees Received		537
	Profit on Sale of Plant		8,000
	Total		**38,54,915**
Less:	Administrative, Selling and Finance Expenses	5,75,804	
	Contribution to National Defence Fund	20,000	
	Directors Fees	54,780	
	Interest on Debentures	21,380	
	Depreciation of Fixed Assets	4,69,713	11,41,677
	Net Profits for Managerial Remuneration		**27,13,238**

1. **Profit on sale of Plant:** It is assumed that the cost of Plant and Machinery is over and above ` 40,000 (given a WDV of ` 32,000 and the value realized being ` 40,000) Profits to extent of the difference between the Original Cost and WDV can be considered for the purpose of determining the Net Profit . Hence in this case, the entire ` 8,000 has been considered for determining the Net Profit. **(½ M)**

2. **Maximum Remuneration Payable to the Managing Director :**
   = 5% of Net Profit (Computed) = 5% × ` 27,13,238 = ` 1,35,662
   However, Managing Director's Remuneration as per the above P & L Account is ` 3,70,500. **(½ M)**

3. **Maximum Remuneration Payable under Schedule V (Inadequate Profits):** Where the Company has no profits or its profits are inadequate, it may pay Remuneration to any Managerial Person, within the limits specified in Schedule V. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Negative or Less than ` 5 Crores", the Maximum Permissible Remuneration is ` 30,00,000 p.a.

4. **Audit Observation:** Remuneration of ` 3,70,500 paid to Managing Director exceeds the limits u/s 197, but is within the limits specified by Schedule V.

3(b) Muruga Ltd was incorporated on 1st August. It had acquired a running business from Govinda and Co. with effect from 1st April. The Purchase Consideration was ` 50,00,000, of which ` 10,00,000 was to be paid in cash and ` 40,00,000 in the form of fully paid Shares. Purchase Consideration due to Vendors was settled on 31st August. [12 Marks]

The Company also issued shares for ` 40,00,000 for cash. Machinery costing ` 25,00,000 was then installed. Assets acquired from the Vendors were: Machinery ` 30,00,000, Stock ` 6,00,000, and Patents ` 4,00,000.

During the year ended 31st March, the Total Sales were ` 1,80,00,000, the Sales per month in the first half year being one half of what they were in the latter half year.

The Net Profit of the Company, after charging the following expenses, was ` 10,00,000:

Particulars	`
Depreciation	**5,40,000**
Director's Fees	**86,000**
Preliminary Expenses	**10,000**
Office Expenses	**2,40,000**
Selling Expenses	**1,98,000**
Interest to Vendors	**50,000**

Ascertain the pre–incorporation and post–incorporation Profits, and prepare the Balance Sheet of the Company as on 31st March. The Closing Stock was valued at ` 7,00,000.

Solution:

1. Computation of Gross Profit (1M)

	Particulars	` 000's
	Net Profit after Expenses and Depreciation	10,00
Add:	Expenses and Depreciation Charged	
	Depreciation	5,40
	Director's Fees	86
	Preliminary Expenses	10
	Office Expenses	2,40
	Selling Expenses	1,98
	Interest to Vendors	50
	Gross Profit	**21,24**

2. Computation of Time Ratio and Sales Ratio (½ M Each= 1M)

Particulars	Pre– Inc	Post–Inc	Total
(a) No. of Months = Time Ratio	1st Apr to 31st Jul = **4** months	1st Aug to 31st March = **8** months	4 : 8= **1 : 2**
(b) Sales per month ratio (½ : 1) between first and second half years	` ½ each for 4 months	` ½ each for Aug and Sep, ` 1 each for balance 6 months	
(c) So, Overall Sales Ratio (a × b)	½ × 4 months = **2**	(½ × 2 mths) + (1 × 6 mths) = **7**	**2 : 7**

3. Trading Account for the year ended 31st March (2M)

Particulars	` 000's	Particulars	` 000's
To Opening Stock (taken over)	6,00	By Sales	1,80,00
To Purchases **(balancing figure)**	**1,59,76**	By Closing Stock	7,00
To Gross Profit **(WN 1)**	21,24		
Total	**1,87,00**	**Total**	**1,87,00**

4. Statement showing appropriation of Profit / Losses for Pre and Post Incorporation Periods (in ` 000's) (4M)

	Particulars	Ratio	Pre Incorpn.	Post Incorpn.
A.	**Gross Profit** (Apportioned in Sales Ratio)	2:7	**4,72**	**16,52**
B.	**Apportionment of Expenses**			
	Depreciation (Time Ratio)	1:2	1,80	3,60
	Office Expenses (Time Ratio)	1:2	80	1,60
	Selling Expenses (Sales Ratio)	2:7	44	1,54
	Interest to Vendors **(Note)**		40	10
	Directors' Fees (Direct)		–	86
	Preliminary Expenses written off (Direct)		–	10
	Total Expenses		**3,44**	**7,80**
C.	**Profit (A – B)**		**1,28**	**8,72**

Note: It is given that the Purchase Consideration due to Vendors is finally settled on 31st August. Accordingly, interest is apportioned in the ratio of time months due i.e. **4 : 1** between Pre–Incorporation and Post–Incorporation Periods.

5. Cash / Bank Account

Receipts	` 000's	Payments	` 000's
To Equity Share Capital	40,00	By Vendors A/c	10,00
To Sales	1,80,00	By Machinery	25,00
		By Expenses (excluding Depreciation)	5,84
		By Purchases (from Trading A/c)	1,59,76
		By balance c/d **(balancing figure) (½ M)**	**19,40**
Total	**2,20,00**	**Total**	**2,20,00**

Note: It is assumed that the Company's transactions are all for cash as there are no Debtors and Creditors.

6. Computation of Goodwill on Acquisition (1/2 M)

	Particulars		`	`
(a)	**Purchase Consideration:**			
	– In Equity Shares		40,00	
	– In Cash		10,00	50,00
(b)	**Value of Assets taken over:**			
	Machinery		30,00	
	Stock		6,00	
	Patents		4,00	40,00
(c)	**Goodwill on Acquisition**	**(a) – (b) (½ M)**		**10,00**

7. Balance Sheet as on 31st March (` 000’s) (1 ½ M)

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders’ Funds:**				
	(a) Share Capital		**1**	80,00	
	(b) Reserves and Surplus	– Surplus (Balance in P&L A/c)		8,72	
	Total			**88,72**	
II	**ASSETS**				
(1)	**Non–Current Assets**				
	Fixed Assets:	(i) Tangible Assets	**2**	49,60	
		(ii) Intangible Assets	**3**	12,72	
(2)	**Current Assets:**				
	(a) Inventories			7,00	
	(b) Cash and Cash Equivalents			19,40	
	Total			**88,72**	

Note 1: Share Capital (1/2 M)

Particulars		This Year	Prev. Yr
Authorised:	....................Equity Shares of ...... each		
Issued, Subscribed & Paid up:	....................Equity Shares of ...... each	80,00	
(Of the above, Shares worth ` 40,00 were issued for non–cash consideration)			
Total		**80,00**	

Note 2: Tangible Fixed Assets: (1/2 M)

	Particulars		This Year	Prev. Yr
	Machinery	(30,00 + 25,00)	55,00	
Less:	Depreciation		(5,40)	
	Total		**49,60**	

Note 3: Intangible Fixed Assets: (1/2 M)

Particulars		This Year	Prev. Yr
Goodwill	(As per **WN 6** 10,00 – Pre Incorpn Profit 1,28)	8,72	
Patents		4,00	
Total		**12,72**	

4(a) The Balance Sheets of Nala Ltd and Kalki Ltd, as at 1st April were as following – [12 Marks]

Liabilities	Nala	Kalki	Assets	Nala	Kalki
Share Capital:			Fixed Assets (other than Goodwill)	5,00,000	3,50,000
Equity Shares of ` 10 each	6,00,000	4,00,000	Stock–in–Trade	95,000	75,000
Reserves	1,50,000	1,00,000	Debtors	1,40,000	1,00,000
Profit and Loss Account	75,000	60,000	Cash and Bank	1,17,500	60,000
Sundry Creditors	37,500	30,000	Preliminary Expenses	10,000	5,000
Total	**8,62,500**	**5,90,000**	**Total**	**8,62,500**	**5,90,000**

Nala Ltd took over and absorbed Kalki Ltd as on 1st October. No Balance Sheet of Kalki Ltd was prepared on the date of take–over. But the following information is made available to you:

1. **In the six months ended 30th September, Kalki Ltd made a Net Profit of ` 60,000 after providing for depreciation at 10% per annum on Fixed Assets. Nala Ltd during that period had made a Net Profit of ` 1,45,000 after providing for depreciation at 10% per annum on the Fixed Assets.**
2. **Both the Companies had distributed dividends of 10% on 1st July.**
3. **Goodwill of Kalki Ltd on the date of takeover was estimated at ` 25,000 and it was agreed that the Stock of Kalki Ltd would be appreciated by ` 15,000 on the date of takeover.**
4. **Nala Ltd to issue shares to Shareholders of Kalki Ltd on the basis of the Intrinsic Value of Shares on the date of takeover.**

Draft the Summary Balance Sheet of Nala Ltd after absorption.

Solution: Since Goodwill is valued and Stocks are revalued, the **Purchase Method** is followed.

1. Computation of Cash and Bank Balances of the Companies as on 1st October (2 M)

	Particulars	Nala	Kalki
	Balance as on 1st April	1,17,500	60,000
Add:	Net Profit during the six months period	1,45,000	60,000
Add:	Depreciation for 6 months $(5,00,000 \times 10\% \times \frac{6}{12})$ & $(3,50,000 \times 10\% \times \frac{6}{12})$	25,000	17,500
	Total of above	2,87,500	1,37,500
Less:	Dividend Paid during the period (10% on Equity Capital)	(60,000)	(40,000)
	Balance as on 30th September (i.e. before Takeover)	**2,27,500**	**97,500**

2. Computation of Net Assets of Nala Ltd and Kalki Ltd as on 1st October (4M)

	Particulars	Nala	Kalki
	Goodwill (at agreed value)	–	25,000
	Fixed Assets (Book Value **Less** Depreciation at 10% for six months)	4,75,000	3,32,500
	Debtors	1,40,000	1,00,000
	Stock (including appreciation of ` 15,000) for Kalki Ltd	95,000	90,000
	Cash & Bank Balances as computed above	2,27,500	97,500
	Total Assets	**9,37,500**	**6,45,000**
Less:	Sundry Creditors	(37,500)	(30,000)
	Value of Net Assets as per Books as on 1st October	**9,00,000**	**6,15,000**
	Number of Equity Shares (Share Capital ÷ ` 10)	60,000	40,000
	Intrinsic Value per Share	**` 15**	**` 15.375**

Exchange Ratio:

(a) Number of Shares to be issued by Nala Ltd to Kalki Ltd = $\frac{\text{` } 6{,}15{,}000}{\text{` } 15 \text{ per Share}}$ = 41,000 Shares. **(1/2 M)**

(b) Manner of Issue = 41,000 Shares of ` 10 FV, issued at ` 5 Premium.
(c) Exchange Ratio = 41,000 Shares of Nala Ltd for 40,000 Shares of Kalki Ltd,
i.e. 41 Shares of Nala Ltd for every 40 Shares of Kalki Ltd. **(1/2 M)**

3. Balance Sheet (Extract) of Nala Ltd as on 1st October (after absorption of Kalki Ltd) (4M)

	Particulars as at 1st October	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	10,10,000	
	(b) Reserves and Surplus	**2**	5,05,000	
(2)	**Current Liabilities:**			
	Trade Payables Creditors (37,500 + 30,000)		67,500	
	Total		**15,82,500**	
II	**ASSETS**			
(1)	**Non–Current Assets**			
	Fixed Assets: (i) Tangible Assets (4,75,000 + 3,32,500)		8,07,500	
	(ii) Intangible Assets – Goodwill		25,000	
(2)	**Current Assets:**			
	(a) Inventories Stock–in–Trade (95,000 + 90,000)		1,85,000	
	(b) Trade Receivables Debtors (1,40,000 + 1,00,000)		2,40,000	
	(c) Cash and Cash Equivalents (2,27,500 + 97,500)		3,25,000	
	Total		**15,82,500**	

Note 1: Share Capital (1/2M)

Particulars	This Year	Prev. Yr
Authorised: ...... Equity Shares of ` ... each		
Issued, Subscribed & Paid up: 1,01,000 Equity Shares of ` 10 each (Of the above, 41,000 Shares issued for non–cash consideration, in a scheme of amalgamation)	10,10,000	
Total	**10,10,000**	

Note 2: Reserves and Surplus (1/2M)

Particulars	This Year	Prev. Yr
(a) Securities Premium Reserve (41,000 × 5)	2,05,000	
(b) Other Reserves	1,50,000	
(c) Surplus (1,60,000 – Miscellaneous Expenditure 10,000) **(Note)**	1,50,000	
Total	**5,05,000**	

Note: Balance in P&L = Balance as per given B/S ` 75,000 + Profit for the period ` 1,45,000 – Dividend paid ` 60,000 = ` 1,60,000.

4(b) From the following, prepare an Account Current to be rendered by A to B at 31st December, reckoning interest at 10% p.a. **[4 Marks]**

Date	Particulars	`	Date	Particulars	`
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
Jul 17	Goods sold to B	50	Sept. 1	Cash received from B	350
Aug. 1	Cash received from B	650	Oct.22	Goods bought from B	30
Aug.19	Goods sold to B	700	Nov. 12	Goods sold to B	20
Aug.30	Goods sold to B	40	Dec. 14	Cash received from B	80

Solution: **In the books of A (Ledger upto 31st December) (½ M each-3 ½ M)**

Dr. **B in Account Current with A (Interest upto 31st December at 10% p.a.)** **Cr.**

Dt	Due	Particulars	`	Days	Product	Dt	Due	Particulars	`	Days	Product
Jul 1	Jul 1	To bal b/d	600	184	1,10,400	Aug 1	Aug 1	By Cash A/c	650	152	98,800
Jul 17	Jul 17	To Sales A/c	50	167	8,350	Sep 1	Sep 1	By Cash A/c	350	121	42,350
Aug 19	Aug 19	To Sales A/c	700	134	93,800	Sep 1	Dec 4	By B/R A/c	250	27	6,750
Aug 30	Aug 30	To Sales A/c	40	123	4,920	Oct 22	Oct 22	By Purchases	30	70	2,100
Nov 12	Nov 12	To Sales A/c	20	49	980	Dec 14	Dec 14	By Cash A/c	80	17	1,360
Dec 31	Dec 31	To Interest	18			Dec 31	Dec 31	By Balance of Products			**67,090**
						Dec 31	Dec 31	By bal c/d	**68**		
		Total	**1,428**		**2,18,450**			**Total**	**1,428**		**2,18,450**

Note: **Interest** = ` 67,090 × 10% × $\frac{1}{365}$ = ` **18** (approx.) **(1/2M)**

5(a) A fire occurred in the premises of Fireproof Co. on 31st August 2013. From the following particulars relating to the period from 1st April 2013 to 31st August 2013, you are requested ascertain the amount of claim to be filed with the Insurance Company for the Loss of Stock. The concern had taken an Insurance Policy for ` 60,000, which is subject to Average Clause. **[6 Marks]**

Particulars	`
(i) Stock as per Balance Sheet at 31.03.2013	99,000
(ii) Purchases	1,70,000
(iii) Wages (including Wages for the Installation of a Machine ` 3,000)	50,000
(iv) Sales	2,42,000
(v) Sale Value of goods drawn by Partners	15,000
(vi) Cost of goods sent to Consignees on 16th August 2013, lying unsold with them	16,500
(vii) Cost of goods distributed as Free Samples	1,500

While valuing the Stock at 31st March 2013, ` 1,000 were written off in respect of a slow moving item, the cost of which was ` 5,000. A portion of these goods were sold at a loss of ` 500 on the original cost of ` 2,500. The remainder of the stock is now estimated to be worth the Original Cost. The value of goods salvaged was estimated at ` 20,000. The Average Rate of Gross Profit was 20% throughout.

Solution:

Dr. **1. Memorandum Trading Account (1st Apr 2013 to 31st Aug 2013)** **Cr.**

Particulars	`	`	**Particulars**		`
To Opening Stock **(1/2M)**	99,000		By Sales **(1/2 M)**	2,42,000	
Less: Cost of Abnormal Item	(4,000)	95,000	**Less:** Abn. Item (2,500 – 250)	(2,000)	2,40,000
To Purchases **(1M)**	1,70,000				
Less: Cost of Drawings by Partners $15,000 \times \frac{80}{100}$	(12,000)				
Less: Goods sent to Consignees	(16,500)		By Stock on the date of fire **(balancing figure) (1/2M)**		**90,000**
Less: Free Samples Distributed	(1,500)	1,40,000			
To Wages (50,000 – 3,000) **(1/2M)**		47,000			
To Gross Profit = 20% on Sales		48,000			
Total		**3,30,000**	**Total**		**3,30,000**

2. Statement of Insurance Claim (3M)

	Particulars	`
	Value of Normal Stock Lost **(WN 2)**	90,000
Add:	Value of Abnormal Stock (at Original Cost as given) [5,000 – 2,500]	2,500
	Total Value of Stock Lost	92,500
Less:	Salvaged Stock	(20,000)
	Net Claim	**72,500**
	Admissible Claim = Net Claim × $\frac{\text{Policy Amount}}{\text{Value of Stock Lost}}$ = ` 72,500 × $\frac{60,000}{92,000}$	**47,282**

5(b) What is the accounting entry to be passed as per AS–10 for the following situations – **[4 Marks]**

(i) Increase in value of Fixed Assets by ` 50,00,000 on account of Revaluation.

(ii) Decrease in value of Fixed Asset by ` 30,00,000 on account of Revaluation.

1. Increase in the Value of the Fixed Assets by ` 50,00,000 on account of Revaluation **(1M)**

Particulars	**Debit(`)**	**Credit (`)**
Fixed Assets A/c Dr. To Revaluation Reserve A/c (Being increase in value of the Fixed Assets on account of Revaluation)	50,00,000	 50,00,000

Note: In case of subsequent year Increase and previous Year decrease, to the extent of previous year decrease debited to Profit and Loss Account, the same shall be credited at the time of increase in Revaluation.

2. Decrease in the Value of the Fixed Asset by ` 30,00,000 on account of Revaluation **(1M each)**

Particulars	**Debit(`)**	**Credit (`)**
CASE 1: First Time Decrease, and **CASE 2:** Second and Subsequent Revaluation – Earlier Decrease Profit and Loss A/c Dr. To Fixed Assets A/c (Being decrease in the value of the Fixed Assets)	 30,00,000	 30,00,000
CASE 3: Second and Subsequent Revaluation – Earlier Increase Revaluation Reserve Dr To Fixed Assets A/c (Being Decrease in the value of the Fixed Assets) **Note:** If the balance in Revaluation Reserve is not sufficient, the balance amount may be debited to P&L A/c.	 30,00,000	 30,00,000

5(c) Rudra Ltd, an Investment Company, is finalizing its account for the Financial Year ending March 2013 in the month of August 2013. How will the following incomes to accounted for in the books of Rudra Ltd? [6 Marks]

(1) X Ltd has declared Interim Dividend which has not been received till 31–03–2013 but received on 25–04–2013.

(2) Y Ltd has declared dividend on 8th May 2013 for the year ending 31–03–2013, which has been approved by the Shareholders of the Company on 30th June 2013.

(3) Z Ltd, a Subsidiary of AQ Ltd, has declared dividend for the year ended 31–03–2013 on 25th May 2013, the AGM for which is to be held on September 2013.

(2 M each)

Case	Principle	Conclusion
X Ltd	• Dividend from Investments in Shares should be recognised in the Statement of P&L only when a right to receive payment is established. • The right to receive Interim Dividend is not established until the dividend is actually received as the Board has a power to rescind their decision.	Interim Dividend is to be recognised when Dividend is received. Rudra Ltd should recognise such Dividend in accounting year 2013–14 and not in financial year ending 31–3–2013.
Y Ltd	• Dividend from Investments in Shares should be recognised in the Statement of P&L only when a right to receive payment is established. • The right to receive dividend should be construed as right to receive by the Balance Sheet date and not till the date when accounts are finalised. In such case, event occurring after Balance Sheet is not considered requiring adjustment to Financial Statements.	Rudra Ltd should recognise the Dividend in the financial year 2013–14 and not in the year ending 31–3–2013, since the right to receive dividend did not exist at the Balance Sheet date, i.e. as at 31–3–2013 but existed only when the AGM of Y Ltd approved the dividend on 30th June 2013.
Z Ltd	**Same Reasons as in Y Ltd's Case above.** [See **Note** below]	Rudra Ltd will recognise the Dividend in the Financial Year 2013–14, for the same reason mentioned in Case 2 (Y Ltd).

Note: As per Old Sch VI, Dividend from Subsidiaries will be recognised as an Income in relation to the period for which the Dividend is declared (irrespective of the actual time of declaration). However this requirement has been dispensed with in Sch III. Hence, as per ICAI Guidance Note, the Company will be recognizing the Final Dividend only based on the right to receive the same.

6 Chandru keeps his books under Single Entry System. On 1st April of a financial year, his Statement of Affairs stood as follows – [16 Marks]

Capital and Liabilities	`	Properties and Assets	`
Capital Account	**2,50,000**	**Non–Current Assets: Furniture and Fittings**	**1,00,000**
Current Liabilities:		**Current Assets: Stock**	**6,10,000**
Trade Creditors	**5,80,000**	**Trade Debtors**	**1,48,000**
Bills Payable	**1,25,000**	**Bills Receivable**	**60,000**
Outstanding Expenses	**45,000**	**Cash in Hand and at Bank**	**80,000**
		Unexpired Insurance	**2,000**
Total	**10,00,000**	**Total**	**10,00,000**

The following was the summary of Cash Book for the year–ended 31st March:

Receipts	`	Payments	`
Cash in Hand & at Bank (Opening Balance)	**80,000**	**Payments to Trade Creditors**	**75,07,000**
Cash Sales	**73,80,000**	**Payments for Bills Payable**	**8,15,000**
Receipts from Trade Debtors	**15,10,000**	**Sundry Expenses paid**	**6,20,700**
Receipts for Bills Receivable	**3,40,000**	**Drawings**	**2,40,000**
		Cash in Hand & at Bank (Closing Balance)	**1,27,300**
Total	**93,10,000**	**Total**	**93,10,000**

Discount Allowed to Trade Debtors and received from Trade Creditors amounted to ` 36,000 and ` 28,000 respectively. Bills endorsed amounted to ` 15,000. Annual Fire Insurance Premium ` 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, Fixtures and Fittings were subject to Depreciation at 15% p.a. on Diminishing Balance Method.

You are also informed about the following balances as on 31st March (year – end).

Particulars	`	Particulars	`
Stock	6,50,000	Bills Payable	1,40,000
Trade Debtors	1,52,000	Outstanding Expenses	5,000
Bills Receivable	75,000		

Chandru maintains a steady Gross Profit Ratio of 10% on Sales.

Prepare Trading and Profit and Loss A/c for the year–ended 31st March, and Balance Sheet as at that date.

Solution:

A. Trading and Profit and Loss A/c of Chandru for the year ended 31st March (6M)

Particulars		`	Particulars		`
To Opening Stock		6,10,000	By Sales: Cash	73,80,000	
To Purchases	**(balancing figure)**	84,10,000	Credit **(WN 2)**	19,20,000	93,00,000
To Gross Profit	(10% of 93,00,000)	9,30,000	By Closing Stock		6,50,000
Total		**99,50,000**	**Total**		**99,50,000**
To Sundry Expenses	**(WN 6)**	5,80,700	By Gross Profit		9,30,000
To Discount Allowed		36,000	By Discount Received		28,000
To Depreciation	(15% of 1,00,000)	15,000			
To Net Profit	**(balancing figure)**	**3,26,300**			
Total		**9,58,000**	**Total**		**9,58,000**

B. Balance Sheet of Chandru as at 31st March (2 M)

Capital and Liabilities		`	Properties and Assets		`
Capital	**(WN 6)**	3,36,300	**Non–Current Assets:** Fixed Assets		
			Furniture	1,00,000	
Current Liabilities:			**Less:** Depreciation	(15,000)	85,000
Trade Creditors	**(WN 5)**	6,10,000	**Current Assets:**		
Bills Payable		1,40,000	Stock		6,50,000
Outstanding Expenses		5,000	Trade Debtors		1,52,000
			Bills Receivable		75,000
			Cash and Bank		1,27,300
			Prepaid Insurance		2,000
Total		**10,91,300**	**Total**		**10,91,300**

Working Notes:

1. Bills Receivable Account (To find out B/R received during the year) **(1/2 M)**

Particulars		`	Particulars	`
To balance b/d		60,000	By Cash	3,40,000
To Trade Debtors	**(balancing figure)**	**3,70,000**	By Trade Creditors (Bills endorsed)	15,000
	(B/R received during the year)		By balance c/d	75,000
Total		**4,30,000**	**Total**	**4,30,000**

2. Trade Debtors Account (To find out Credit Sales for the period) **(1 M)**

Particulars		`	Particulars		`
To balance b/d		1,48,000	By Cash / Bank		15,10,000
To Credit Sales	**(balancing figure)**	**19,20,000**	By Discount Allowed		36,000
(1/2 M)			By Bills Receivable	**(WN 1)**	3,70,000
			By balance c/d		1,52,000
Total		**20,68,000**	**Total**		**20,68,000**

3. Bills Payable Account (to find out B/P accepted during the year) **(1 M)**

Particulars	`	**Particulars**	`
To Cash / Bank	8,15,000	By balance b/d	1,25,000
To balance c/d	1,40,000	By Creditors – B/P accepted **(bal. figure) (1/2 M)**	**8,30,000**
Total	**9,55,000**	**Total**	**9,55,000**

4. Trade Creditors Account (To find out Closing Balance of Creditors) **(1 M)**

Particulars	`	**Particulars**	`
To Cash / Bank	75,07,000	By balance b/d	5,80,000
To Discount Received	28,000	By Purchases (from Trading A/c)	84,10,000
To Bills Receivable – endorsed	15,000		
To Bills Payable – accepted **(WN 4)**	8,30,000		
To balance c/d **(1/2 M) (balancing figure)**	**6,10,000**		
Total	**89,90,000**	**Total**	**89,90,000**

5. Expenses Account (To find out Expenses recognised for the year)

Particulars	`	**Particulars**	`
To balance b/d – Opg Bal Prepaid Exps	2,000	By balance b/d – Opg Bal Exps Payable	45,000
To Cash – Expenses paid	6,20,700	By P&L – Exps recognised for the year **(b/fig) (1/2 M)**	**5,80,700**
To balance c/d – Clg Bal Exps Payable	5,000	By balance c/d – Clg Bal Prepaid Exps	2,000
Total	**6,27,700**	**Total**	**6,27,700**

Note: Prepaid Expenses at the end of the year = (` 6,000 × $\frac{4}{12}$ ) (Apr 2012 to July 2012) = ` **2,000. (1/2 M)**

6. Capital Account (To find out Closing Capital) **(1 M)**

Particulars	`	**Particulars**	`
To Drawings	2,40,000	By balance b/d	2,50,000
By balance c/d **(1M) (balancing figure)**	**3,36,300**	By Net Profit for the year **(from P&L)**	3,26,300
Total	**5,76,300**	**Total**	**5,76,300**

7(a) From the following figures, prepare the General Ledger Adjustment Account in the Bought Ledger, and Sales Ledger Adjustment Account in the General Ledger – [4 Marks]

Particulars	`	**Particulars**	`
Balance of Bought Ledger Adjt A/c at the beginning Cr.	**3,860**	**Interest on Customer's overdue Accounts**	**400**
Balance of Sales Ledger Adjt A/c at the beginning	**2,750**	**Collection from Debtors**	**29,000**
Credit Purchases	**40,000**	**Sales Returns**	**800**
Acceptances Received from Customers	**2,500**	**Credit Sales**	**50,000**
Allowances Received	**400**	**Cash Sales**	**2,000**
Credit transferred from Bought Ledger to Sales Ledger	**75**	**Acceptances returned dishonoured**	**700**
		Paid to Creditors	**13,000**

Solution: 1. General Ledger Adjustment Account (in Bought Ledger) (2M)

Particulars	`	Particulars	`
To balance b/d (OB Cr as per contra)	3,860	By Bought Ledger Adjt A/c (in General Leder)	
To Bought Ledger Adjt A/c (in Gen. Ledger)		Cash / Bank (Payment to Creditors)	13,000
Purchases	40,000	Allowances Received	400
		Transfer to Sales Ledger	75
		By balance c/d (balancing figure)	30,385
Total	43,860	Total	43,860

2. Sales Ledger Adjustment Account (in General Ledger) **(2M)**

Particulars	`	Particulars	`
To balance b/d (OB given)	2,750	By General Ledger Adjt A/c (in Sales Ledger)	
To General Ledger Adjt A/c (in Sales Ledger)		Cash / Bank (Collection from Debtors)	29,000
Credit Sales	50,000	Sales Returns	800
Interest on Overdue A/c's	400	Bills Receivable (Acceptances received)	2,500
B/R dishonoured	700	Transfer from Bought Ledger	75
		By balance c/d (balancing figure)	**21,475**
Total	53,850	Total	53,850

Note: **Cash Sales will not be reflected in the above Account.**

7(b) The following amounts are due to Govind by Himavan. Himavan wants to pay off – (a) on 18th March or (b) on 14th July. Interest rate of 8% p.a. is taken into consideration. [4 Marks]

Due Date	**10th Jan**	**26th Jan (Republic Day)**	**23rd Mar**	**18th Aug (Sunday)**
`	**5,000**	**10,000**	**30,000**	**40,000**

Determine the amount to be paid in (a) and in (b).

Solution: Computation of Average Due Date (**Note:** Base Date = 10th Jan) **(1/2 M each-2 M)**

Due Date (Given)	**Due Date (Actual)**	**No. of Days from Base Date**	**Amount (`)**	**Product(`)**
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4)**	**Col. (5) = (3) × (4)**
10th Jan	10th Jan	0	5,000	0
26th Jan	25th Jan	15	10,000	1,50,000
23rd Mar	23rd Mar	21 + 28 + 23 = 72	30,000	21,60,000
18th Aug	17th Aug	21 + 28 + 31 + 30 + 31 + 30 + 31 + 17 = 219	40,000	87,60,000
Total			**85,000**	**1,10,70,000**

Avg Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 10th Jan + $\frac{1,10,70,00\ 0}{85,000}$ = 10th Jan + 131 days (approx.) = **21st May. (1M)**

Net Payment to be made:

(a) If Payment is made on 18th March, number of days from date of payment to ADD = 13 + 30 + 21 = 64 days.

Discount = ` 85,000 × 8% × $\frac{64}{365}$ = **` 1,192** (approx.). **(1/2 M)**

Amount to be paid on 18th March = ` 85,000 – ` 1,192 = **` 83,808.**

(b) If Payment is made on 14th July, number of days from ADD to date of payment = 10 + 30 + 14 = 54 days.

Interest = ` 85,000 × 8% × $\frac{54}{365}$ = **` 1,006** (approx.) **(1/2 M)**

Amount to be paid on 14th July = ` 85,000 + ` 1006 = **` 86,006.**

7(c) What do you mean by "Codification of Accounts"? What are its benefits? [4 Marks]

1. **Codification:** Codification of Accounts is a system whereby different ledger accounts are assigned Codes (i.e. Numbers) which would communicate their nature (Income, Expense, Asset, Liability, etc.) **(1M)**

2. **Benefits:**
   (a) It reduces the possibility of duplication, i.e. same account existing in several names due to spelling mistakes or abbreviations used.
   (b) Codes can be used in both Manual and CIS Accounting Systems. It is beneficial where there are numerous account heads and the complexity is high. **(1M)**

3. **Systematic Grouping: (1 M)**
   (a) **Meaning:** Grouping refers to categorizing of different Ledger Accounts under different heads / groups e.g. Fixed Assets, Current Assets, Receivables, Term Liabilities, Suppliers, Operating Income, Non–Operating Income, etc.
   (b) **Significance:** Systematic Grouping is a pre–condition for proper codification, since each Ledger under a Group will have similar coding pattern.

4. **Basis for Grouping:** Grouping and Codification is dependant upon the type of Enterprise and the extent of sub–division required for reporting on the basis of Profit Centres or Product Lines.**(1M)**

7(d) Journalise the following issues of Debentures in the books of the Issuing Company (each situation is independent)
[4 Marks]

(a) 25,000 nos. of 8% Debentures of ` 100 each, issued at a Premium of ` 15 per Debenture, the total amount is collected at the time of application itself.

(b) Machinery worth ` 38 Lakhs was purchased. The amount due to the Vendor was settled by way of issue of 6% Debentures of ` 400 each, issued at a discount of 5%.

(c) 50,000 nos. 9% Fully Convertible Debentures issued at face value of ` 50 each, the entire amount being collected at the time of application.

Solution: **Situation (a)**

Particulars		**Dr.(`)**	**Cr.(`)**
1. Bank A/c **(1/2M)**	Dr.	28,75,000	
To Debentures Application and Allotment A/c			28,75,000
(Being amount received on the issue of 25,000 8% Debentures of ` 100 each, at a premium of ` 15 per Debenture = 25,000 × ` 115)			
2. Debentures Application and Allotment A/c **(1M)**	Dr.	28,75,000	
To 8% Debentures A/c (` 100 each)			25,00,000
To Securities Premium A/c			3,75,000
(Being allotment of 25,000 8% Debentures of ` 100 each, at a Premium of ` 15 each)			

Situation (b)

1. Machinery A/c **(1/2M)**	Dr.	38,00,000	
To Asset Vendor A/c			38,00,000
(Being the purchase of Machinery, and amount due to the Vendor)			
2. Asset Vendor A/c **(1 M)**	Dr.	38,00,000	
Discount on Issue of Debentures A/c	Dr.	2,00,000	
To 6% Debentures A/c			40,00,000
(Being allotment of 10,000 6% Debentures of ` 400 each, at a discount of ` 20 each)			
(Issue Price = Face Value ` 400 less 5% discount = ` 380. So, no. of Deb = 10,000)			

Situation (c)

1. Bank A/c **(1/2M)**	Dr.	25,00,000	
To Debentures Application and Allotment A/c			25,00,000
(Being the issue of 50,000 9% Debentures of ` 50 each at par)			
2. Debentures Application and Allotment A/c **(1/2M)**	Dr.	25,00,000	
To 9% Fully Convertible Debentures A/c (` 50 each)			25,00,000
(Being the allotment of 50,000 9% FCD of ` 50 each)			

Note: Discount on issue of Debentures may be written off against Securities Premium u/s 52, in Situation **(b).**

7(e) Explain the conditions involved in an Amalgamation in the nature of Merger and Amalgamation in the nature of Purchase.
[4 Marks]

Amalgamation in the nature of Merger is an amalgamation, which satisfies **all** the following conditions –

1. **Assets and Liabilities:** All the Assets and Liabilities of the Transferor Company become, after amalgamation, the assets and liabilities of the Transferee Company. **(1/2M)**

2. **Equity Shareholders:** Shareholders holding not less than 90% of the Face Value of the Equity Shares of the Transferor Company, (other than the Equity Shares already held therein, immediately before the amalgamation, by the Transferee Company or its Subsidiaries or their Nominees) become Equity Shareholders of the Transferee Company by virtue of the amalgamation. **(1M)**

3. **Consideration to Equity Shareholders = Equity Shares:** The consideration for the amalgamation receivable by those Equity Shareholders of the Transferor Company who agree to become Equity Shareholders of the Transferee Company, is discharged by the Transferee Company wholly by the issue of Equity Shares in the Transferee Company, except that cash may be paid in respect of any fractional Shares. **(1/2M)**

4. **Continuity of business:** The business of the Transferor Company is intended to be carried on, after the amalgamation, by the Transferee Company. **(1/2M)**

5. **Book Values of Assets and Liabilities:** No adjustment is intended to be made to the Book Values of the Assets and Liabilities of the Transferor Company, when they are incorporated in the Financial Statements of the Transferee Company, except to ensure uniformity of accounting policies. **(1 M)**

Amalgamation in the nature of purchase is an amalgamation,
which **does not satisfy any one or more of the conditions** specified above. **(1/2M)**