ANSWER SHEET

MOCK TEST PAPER - 1

INTERMEDIATE (IPC): GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year
= Rs. 50,000 x 0.7513 = Rs. 37,565

Present value of lease payments = Rs. 5,00,000 – Rs. 37,565 = Rs. 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(Rs. 4,62,435/ Rs. 5,00,000) x 100 = 92.487%.

Since, it substantially covers the major portion of the lease payments, the lease constitutes a finance lease.

(b) As per AS 11, ‗The Effects of Changes in Foreign Exchange Rates', initial recognition of a foreign currency transaction is done in the reporting currency by applying the exchange rate at the date of the transaction. Accordingly, on 25th February 2015, the raw material purchased and its creditors will be recorded at US dollar 9,000 × Rs. 44 = Rs. 3,96,000.

Also, as per the standard, on balance sheet date such transaction is reported at closing rate of exchange, hence it will be valued at the closing rate i.e. Rs. 49 per US dollar (USD 9,000 x Rs. 49 = Rs. 4,41,000) at 31st March, 2015, irrespective of the payment made for the same subsequently at lower rate in the next financial year.

The difference of Rs. 5 (49 – 44) per US dollar i.e. Rs. 45,000 (USD 9,000 x Rs. 5) will be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2015 and will not be adjusted against the cost of raw materials.

In the subsequent year on settlement date, the company would recognize or provide in the Profit and Loss account an exchange gain of Rs. 1 per US dollar, i.e. the difference from balance sheet date to the date of settlement between Rs. 49 and Rs. 48 per US dollar i.e. Rs. 9,000. Hence, the accounting treatment adopted by the Chief Accountant of the company is incorrect i.e. it is not in accordance with the provisions of AS 11.

(c) (a) Interest for the period 2014-15

= US \$ 10 lakhs x 4% × Rs. 62 per US\$ = Rs. 24.80 lakhs

(b) Increase in the liability towards the principal amount

= US \$ 10 lakhs × Rs. (62 - 56) = Rs. 60 lakhs

(c) Interest that would have resulted if the loan was taken in Indian currency

= US \$ 10 lakhs × Rs. 56 x 10.5% = Rs. 58.80 lakhs

(d) Difference between interest on local currency borrowing and foreign currency borrowing = Rs. 58.80 lakhs - Rs. 24.80 lakhs = Rs. 34 lakhs.

Therefore, out of Rs. 60 lakhs increase in the liability towards principal amount, only Rs. 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be Rs. 58.80 lakhs being the aggregate of interest of Rs. 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of Rs. 34 lakhs.

Hence, Rs. 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 and the remaining Rs. 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11.

(d) Provision to be made for warranty under AS 29 ‗Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2015 = Rs. 40,000 x .02 + Rs. 25,000 x .03 = Rs. 800 + Rs. 750 = Rs. 1,550

As at 31st March, 2016 = Rs. 25,000 x .02 + Rs. 90,000 x .03 = Rs. 500 + Rs. 2,700 = Rs. 3,200

Amount debited to Profit and Loss Account for year ended 31st March, 201 6

	Rs.
Balance of provision required as on 31.03.2016	3,200
Less: Opening Balance as on 1.4.2015	(1,550)
Amount debited to profit and loss account	1,650

Note: No provision will be made on 31st March, 2015 in respect of sales amounting Rs. 40,000 made on 19th January, 2014 as the warranty period of 2 years has already expired.

2.

Statement showing distribution of cash amongst the partners

		Creditors	*B's Loan*		*Capitals*	
				A(Rs.)	*B(Rs.)*	*C(Rs.)*
Balance Due		16,500	4,500	15,000	7,500	15,000
On 1st Instalment amount with the firm Rs. (275 + 18,650)	18,925					
Less: Dissolution expenses provided for	(3,000)					
	15,925					
Less: C's remuneration of 1% on assets realized (18,650 x 1%)	(187)					
	15,738					
Less: Payment made to creditors	(15,738)	(15,738)				
Balance due	Nil	762				
2nd instalment realised	17,320					

Less: C's remuneration of 1% on assets realized (17,320 x 1%)	(173)					
	17,147					
Less: Payment made to creditors	(162)	(162)				
Transferred to P& L A/c	16,985	600				
Less: Payment for B's loan A/c	(4,500)		(4,500)			
Amount available for distribution to partners	12,485		nil			
Less: C's remuneration of 10% of the amount distributed to partners (12,485 x 10/110)	(1,135)					
Balance distributed to partners on the basis of HRCM	11,350					
Less: Paid to C (W.N.1)	(3,750)					(3,750)
	7,600					11,250
Less: Paid to A and C in 4:3 (W.N.1)	(7,600)			(4,343)	-	(3,257)
Balance due	nil			10,657	7,500	7,993
Amount of 3rd instalment	10,000					
Less: C's remuneration of 1% on assets realized (10,000 x 1%)	(100)					
	9,900					
Less: C's remuneration of 10% of the amount distributed to partners (9,900 x 10/110)	(900)					
	9,000					
Less: Paid to A and C in 4:3 for (Rs. 8,750 – 7,600) (W.N.1)	(1,150)			(657)	-	(493)
	7,850			10,000	7,500	7,500
Less: Paid to A, B and C in 4:3:3	(7,850)			(3,140)	(2,355)	(2,355)
Balance due	nil			6,860	5,145	5,145
Amount of 4th and last instalment	7,000					
Less: C's remuneration of 1% on assets realized (7,000 x 1%)	(70)					
	6,930					
Less: C's remuneration of 10% of the amount distributed to partners (6,930 x 10/110)	(630)					
	6,300					
Less: Paid to A, B and C in 4:3:3	(6,300)			(2,520)	(1,890)	(1,890)
Loss suffered by partners				4,340	3,255	3,255

Working Note:

(c) Rs. 275 added to the first instalment received on sale of assets represents the Cash in Bank

(d) The amount due to Creditors at the end of the utilization of First Instalment is Rs. 762/-. However, since the creditors were settled for Rs. 15,900/- only the balance 162/- were paid and the balance Rs. 600/- was transferred to the Profit & Loss Account.

(iii) **Highest Relative Capital Basis**

		A Rs.	B Rs.	C Rs.
Balance of Capital Accounts	(A)	15,000	7,500	15,000
Profit sharing ratio		4	3	3
Capital Profit sharing ratio		3,750	2,500	5,000
Capital in profit sharing ratio taking B's Capital as base	(B)	10,000	7,500	7,500
Excess of A's Capital and C's Capital (A-B) =(C)		5,000	nil	7,500
Again repeating the process				
Profit sharing ratio		4		3
Capital Profit sharing ratio		1,250		2,500
Capital in profit sharing ratio taking A's Capital as base	(D)	5,000		3,750
Excess of C's Capital (C-D)=(E)		nil		3,750

Therefore, firstly Rs. 3,750 is to be paid to C then A and C to be paid in proportion of 4:3 upto Rs. 8,750 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in their profit sharing ratio 4:3:3 to all partners viz A, B and C.

3. **Journal Entries**

			Rs. in lacs
		Dr.	Cr.
Equity Share Capital (Rs. 10 each) A/c	Dr.	500	
To Equity Share Capital (Rs. 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of Rs. 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			

12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of Rs. 2.5 each from existing shareholders)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (Rs. 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c	Dr.	165	
To Equity Share Capital (Rs. 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade payables for Rs. 65 lakhs accepting shares for full amount and those for Rs. 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve A/c	Dr.	6	
To Reconstruction A/c			6
(Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)			
Land and Building A/c	Dr.	46	
To Reconstruction A/c			46
(Appreciation made in the value of land and building as per scheme of reconstruction)			
Reconstruction A/c	Dr.	505	
To Goodwill A/c			15
To Plant and Machinery A/c			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			

Note: In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

Balance Sheet of Krishna Ltd. (and Reduced) as on 31st March, 2016

Particulars	*Note No.*	*Amount*
		Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	315
(2) Non-Current Liabilities		
(a) Long-term borrowings - 13% Debentures		400
(3) Current Liabilities		
(a) Other current liabilities		11
(b) Short-term provisions		33
Total		759
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	2	491
(ii) Intangible assets	3	0
(2) Current assets		
(a) Current investments		
(b) Inventories		120
(c) Trade receivables		76
(d) Cash and cash equivalents(W.N.2)		72
Total		759

Notes to Accounts

			Rs.
1	**Share Capital**		
	Equity Share Capital (Rs. 2.50 each)	125	
	Add: Fresh issue	125	
	Add: Equity shares issued to trade payables	65	
	1,26,000 Fully paid equity shares of Rs. 2.50 each		315

(26,000 shares have been issued for consideration other than cash) 2 **Tangible assets**

a)	Land and Building	184	
	Add: Amount of appreciation under scheme of reconstruction	46	230
b)	Plant and Machinery	286	
	Less: Amount written off under scheme of reconstruction dated.	(66)	220
c)	Furniture and Fixtures		41

		491
3 **Intangible assets**		
Goodwill	15	
Less: Amount written off under scheme of reconstruction	15	-

Working Notes :

1. (Rs. in lacs)

Reconstruction Account

		Rs.			Rs.
To	Goodwill	15	By	Equity Share Capital A/c	375
To	Plant and Machinery	66	By	Director's Remuneration Outstanding A/c	10
To	Inventory	22	By	Debenture Interest Outstanding A/c	48
To	Trade receivables	4	By	Trade payables	20
To	Discount on issue of Debentures	8	By	Capital Reserve (Balancing Figure)	6
			By	Land and Building	46
To	Profit and Loss A/c	390			
		505			505

2. Cash at bank as on 31st March, 2016 (after reconstruction)

	Rs.
Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	125
	152
Less: Payment made to trade payables (80% of Rs. 100 Lakhs)	(80)
	72

4.

(a) Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	*(Shares)*
Number of shares outstanding (Rs.12,50,000 + Rs.1,00,000)/ *Rs.* 10	1,35,000
25% of the shares outstanding	33,750

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (Rs.)	Rs. 13,50,000
Free reserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000)	Rs. 18,75,000
Shareholders' funds (Rs.)	Rs. 32,25,000
25% of Shareholders fund (Rs.)	Rs. 8,06,250
Buy back price per share	Rs. 20
Number of shares that can be bought back (shares)	40,312
Actual Number of shares for buy back	25,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

Particulars	Rs.
(a) Loan funds (Rs.) (18,75,000+10,00,000+16,50,000 + 1,00,000 + 2,00,000)	48,25,000
(b) Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	24,12,500
(c) Present equity/shareholders fund (Rs.)	32,25,000
(d) Future equity/shareholders fund (Rs.) (see W.N.) (32,25,000 – 2,70,833)	29,54,167*
(e) Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	5,41,667
(f) Maximum number of shares that can be bought back @ Rs. 20 per share	27,083 Shares
(g) Actual Buy Back Proposed Shares	25,000

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	33,750
Resources Test	40,312
Debt Equity Ratio Test	27,083

Maximum number of shares that can be bought back [least of the above]	27,083

Company qualifies all tests for buy -back of shares and conclusion is that it can buy maximum 27,083 shares on 1st April, 2016.

However, company wants to buy-back only 25,000 equity shares @ Rs. 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (Rs.)	*Credit (Rs.)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd.

as on 1st April, 2016

Particulars	*Note No*	*Amount Rs.*
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Other current liabilities	4	19,50,000
Total		81,50,000
ASSETS		
1 **Non-current assets**		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

			Rs.	Rs.
1.	Share Capital			
	Equity share capital			
	1,10,000 Equity shares of Rs.10 each			11,00,000
2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		1,00,000	
	Revaluation Reserve		1,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(\text{Rs. } 32{,}25{,}000 - x) - \text{Rs. } 24{,}12{,}500 = y \qquad (1)$$

$$\frac{y}{20} \times 10 = x$$

$$\text{Or} \quad 2x = y \qquad (2)$$

by solving the above equation we get x = Rs. 2,70,833 and y = Rs. 5,41,667

(b) Redemption of debentures must be done according to the terms of issue of debentures and any deviation will be treated as a default by the company.

Redemption by paying off the debt on account of debentures issued can be done in one of the following four methods viz:

(a) By payment in lump sum at the end of a specified period of time;
(b) By payment in annual installments;
(c) By purchasing its own debentures in the open market.
(d) By conversion into shares in full or in part depending on the terms of issue.

5 (a)

FORM B– RA

Name of the Insurer: Shah Insurance Company Limited

Registration No. and Date of registration with IRDA: ....

Revenue Account for the year ended 31st March, 2014

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	21,70,000
Profit or loss on sale/redemption of investment		22,000
Others		-
Interest dividend & rent (Gross)		1,28,500
Total (A)		23,20,500
Claim incurred (Net)	2	13,90,000
Commission	3	3,04,000
Operating expenses related to insurance	4	5,00,000
Total (B)		21,94,000
Operating profit/loss from fire insurance business		1,26,500
Schedule –1 (Premium earned net)		₹
Premium received		22,40,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)		70,000
Total premium earned		21,70,000
Schedule -2 (Claims incurred net)		
Claim paid		12,80,000
Add: Legal expenses regarding claims		60,000
		13,40,000
Add: Claims outstanding as on 31st March 2014		1,80,000
		15,20,000
Less: Claims outstanding as on 31st March 2013		1,30,000
		13,90,000
Schedule-3 (Commission)		
Commission paid		3,04,000
Schedule-4 (Operating expenses related to Insurance Business)		-
Expenses of management (5,60,000 – 60,000)		5,00,000

Working Note:

Calculation for change in Reserve for Unexpired risk:		₹
As on 31st March, 2014:		
Reserve for Unexpired Risk	11,20,000	
Additional Reserve	1,50,000	12,70,000
Less: Reserve for Unexpired risks as on 31st March, 2013	10,00,000	
Additional reserve as on 31st March, 2013	2,00,000	(12,00,000)
		70,000

Note: Interest and dividends are shown at gross value in Revenue A/c. Income tax on the above will not be included in Revenue A/c of an insurance company as it is the part of Profit and Loss A/c.

(b)

National Bank Limited

Profit and Loss account for the year ended 31st March, 2014

		Schedule No.	**Year ended 31.3.2014**
			₹
I.	Income		
	Interest earned	13	37,01,500
	Other income	14	4,55,000
			41,56,500
II.	Expenditure		
	Interest expended	15	20,37,000
	Operating expenses	16	4,55,000
	Provisions and contingencies (W.N.2)		13,00,000
			37,92,000
III.	Profit		
	Net profit for the year		3,64,500
	Profit brought forward		-
			3,64,500
IV.	Appropriations		
	Transfer to Statutory Reserve		91,125
	Proposed dividend		1,00,000
	Balance carried over to balance sheet		1,73,375
			3,64,500

Schedule 13 – Interest earned

	₹
Interest and discount earned (W.N.1)	37,01,500
	37,01,500

Schedule 14 - Other Income

	₹
Commission, exchange and brokerage	1,90,000
Profit on sale of investment	2,00,000
Rent	65,000
	4,55,000

Schedule 15-Interest Expended

	₹
Interest paid on deposits	20,37,000
	20,37,000

Schedule 16-Operating Expenses

	₹
Payment and provisions for employees	2,00,000
Rent and taxes paid	90,000
Depreciation on bank's property	30,000
Directors' fees and allowances	30,000
Auditors' fees	5,000
Law charges	40,000
Postage and Telegrams	60,000
	4,55,000

Working Notes:

			₹
1.	**Calculation of interest earned**		
	Interest and discount received		37,05,500
	Add: Rebate on bills discounted as on 31st March, 2013		12,000
			37,17,500
	Less: Rebate on bills discounted as on 31st March, 2014		(16,000)
			37,01,500
2.	**Provisions and Contingencies**		
	Provision for doubtful debts:		
	Doubtful debts due to insolvency of a customer (50% of ₹ 10 lakhs)	5,00,000	
	Provision for other debts	1,50,000	6,50,000
	Provision for income tax		6,50,000
			13,00,000

6. (a)

Trading and Profit and Loss A/c

For the year ended 31st March 2014

		Head office Rs.	Branch Rs.			Head office Rs.	Branch Rs.
To	Opening stock	1,25,000	-	By Sales		23,79,600	7,30,000

To Purchases	21,50,000	-	By Goods sent to branch	7,38,000	-
To Goodsreceived from head office	-	7,38,000	By Closing stock (W.N.1 & 2)	5,43,000	81,000
To Gross profit c/d	13,85,600	73,000			
	36,60,600	8,11,000		36,60,600	8,11,000
To Office expenses	50,000	4,500	By Gross profit b/d	13,85,600	73,000
To Selling expenses	32,000	3,300			
To Staff salaries	45,000	8,000			
To Branch Stock Reserve (W.N.3)	36,000	-			
To Net Profit	12,22,600	57,200			
	13,85,600	73,000		13,85,600	73,000

Working Notes:

(1)

Calculation of closing stock of head office:	*Rs.*
Opening Stock of head office	1,25,000
Goods purchased by head office	21,50,000
	22,75,000
Less: Cost of goods sold [31,17,600 (23,79,600+ 7,38,000) x100/180]	(17,32,000)
	5,43,000

(2)

Calculation of closing stock of branch:	*Rs.*
Goods received from head office [At invoice value]	7,38,000
Less: Invoice value of goods sold [7,30,000 x 180/200]	(6,57,000)
	81,000

(3)

Calculation of unrealized profit in branch stock:	
Branch stock Rs. 81,000	
Profit included 80% of cost	
Hence, unrealized profit would be = Rs. 81,000 x 80/180 =	Rs. 36,000

(b)

	Departments		
	R	*S*	*T*
	Rs.	*Rs.*	*Rs.*
Profit before adjustment of unrealized profits	54,000	40,500	27,000
Add: Managerial commission (1/9)	6,000	4,500	3,000
	60,000	45,000	30,000
Less: Unrealised profit on stock (Refer W.N.)	(6,000)	(6,750)	(3,000)
	54,000	38,250	27,000
Less: Managers' commission @ 10%	(5,400)	(3,825)	(2,700)
Profit after adjustment of unrealized profits	48,600	34,425	24,300

Working Notes:

Value of unrealised profit

		Rs.
Transfer by department R to		
S department (22,500 ×25/125) =	4,500	
T department (16,500 ×10/110) =	1,500	6,000
Transfer by department S to		
R department (21,000 × 15/100) = 3,150		
T department (18,000 × 20/100) = 3,600		6,750
Transfer by department T to		
R department (9,000 × 20/120) = 1,500		
S department (7,500 × 25/125) = 1,500		3,000

7. (a) Under following circumstances, an LLP can be wound up by the Tribunal:

(i) If the LLP decides that it should be wound up by the Tribunal;

(ii) If for a period of more than six months, the number of partners of the LLP is reduced below two;

(iii) If the LLP is unable to pay its debts;

(iv) If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;

(v) If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

(vi) If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	45,00,000 x 2%	90,000
3% on payment made to Preferential creditors	1,25,000 x 3%	3,750
3% on payment made to Unsecured creditors (Refer W.N)		45,000
Total Remuneration payable to Liquidator		1,38,750

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= Rs. 45,00,000 – Rs. 50,000 – Rs. 15,00,000 – Rs. 1,25,000 – Rs. 90,000 – Rs. 3,750

= Rs. 27,31,250

Sufficient amount is available for unsecured creditors therefore Liquidator's remuneration on payment to unsecured creditors = 3% x Rs. 15,00,000 = Rs. 45,000

(c) As per AS 26 ―Intangible Assets‖, expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting Rs. 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2015.

(d)

			Rs. in crores
Profit after depreciation but before VRS Payment			75.00
Less:	Depreciation – No. adjustment required	-	
	VRS payments	32.10	
	Provision for taxation	10.00	
	Fringe benefit tax	5.00	(47.10)
Net Profit			27.90
No. of shares			9.30 crores

$$\text{EPS} = \frac{\text{Netprofit}}{\text{No.of shares}} = \frac{27.90}{9.30} = \text{Rs. 3 per share.}$$

(e) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results. For example if the assets of a company primarily consist of debtors and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key debtors have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.