PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For NOVEMBER, 2017 EXAMINATION

A. Applicable for November, 2017 Examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2017 will be applicable for November, 2017 Examination.

II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for November, 2017 examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the accounting standards relevant for Paper 5:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 4	Footnote to AS 4	Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal	All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the	Footnote has been modified.

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		with contingencies (viz. paragraphs 1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4.	impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	
	8.5	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as a liability at the balance sheet date	No liability for proposed dividends must be created now. Such proposed dividends are to be disclosed in the notes.

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			because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.	
	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.	No liability for proposed dividends should be created now. Such proposed dividends are to be disclosed in the notes.
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g.,	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g.,	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of

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		'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013
AS 29	35 (An extract)	The amount of a provision should not be discounted to its present value.	The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s)	Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein.

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			should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognized in the statement of profit and loss.	
	73		**Transitional Provisions** All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.	Discounting of above existing provisions and similar liabilities should be prospectively, with the corresponding effect to the related item of property, plant and equipment.

III Maintenance of Statutory Liquidity Ratio (SLR)

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in partial modification of the Notification DBR.No.Ret.BC.63/12.01.001/2015-16 dated December 10, 2015, the Reserve Bank hereby specifies that:

(i) with effect from the dates given below, every scheduled commercial bank, local area bank, primary co-operative bank, state co-operative bank and central cooperative bank shall maintain in India assets (hereinafter referred to as 'SLR assets') the value of which shall not, at the close of business on any day, be less than:

(a) 20.75 per cent from October 1, 2016; and

(b) 20.50 per cent from January 7, 2017

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time; and

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(ii) such SLR assets shall be maintained by:

A. Scheduled commercial banks and local area banks, as -

(a) cash; or

(b) gold as defined in Section 5(g) of Banking Regulation Act, 1949 valued at a price not exceeding the current market price: or

(c) unencumbered investment in any of the following instruments [hereinafter referred to as Statutory Liquidity Ratio securities ("SLR securities")], namely:-

(1) Dated securities of the Government of India issued from time to time under the market borrowing programme and the Market Stabilization Scheme; or

(2) Treasury Bills of the Government of India; or 3) State Development Loans (SDLs) of the State Governments issued from time to time under the market borrowing programme:

(d) the deposit and unencumbered approved securities required, under sub-section (2) of section 11 of the Banking Regulation Act, 1949(10 of 1949), to be made with the Reserve Bank by a banking company incorporated outside India;

(e) any balance maintained by a scheduled bank with the Reserve Bank in excess of the balance required to be maintained by it under section 42 of the Reserve Bank of India Act,1934 (2 of 1934);

Provided that the instruments referred to in items (1) to (3) above that have been acquired under reverse repo with Reserve Bank of India, shall not be included as SLR securities for the purpose of maintenance of SLR assets up to October 2, 2016.

IV Maintenance of Cash Reserve Ratio (CRR)

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to ***4.00 per cent of their Net Demand and Time Liabilities (NDTL)*** with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001 /2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

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B. Not applicable for November, 2017examination

Non-Applicability of Ind AS for November, 2017 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2017 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Sale of Partnership firm to Company

1. XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2017:

Liabilities	XYZ & Co. ₹	ABC Ltd. ₹		XYZ & Co. ₹	ABC Ltd. ₹
Equity share capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of ₹ 10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Inventories	2,00,000	8,50,000
X	2,00,000		Trade receivables	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Trade payables	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of XYZ & Co. includes ₹ 1,00,000 payable to ABC Ltd. An unrecorded liability of ₹ 25,000 of XYZ & Co. must also be taken over by ABC Ltd.

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Prepare:

(i) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of XYZ & Co.

(ii) Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.

Conversion of Partnership Firm to Company

2. A and V, sharing profits and losses equally, desired to convert their business into a limited company on 31st December, 2016 when their balance sheet stood as follows:

Liabilities	₹	₹	*Assets*	₹
Sundry creditors		1,92,000	Sundry debtors	2,40,000
Loan creditors		1,60,000	Bills receivable	40,000
Bank overdraft		64,000	Stock in trade	1,44,000
Reserve fund		24,000	Patents	32,000
Capital accounts:			Plant and machinery	64,000
A	1,60,000		Land and building	2,40,000
V	1,60,000	3,20,000		
		7,60,000		7,60,000

(a) The goodwill of the firm was to be valued at two years' purchase of the profits average of the previous three years.

(b) The loan creditor was agreed to accept 7½% redeemable preference shares in settlement of his claim.

(c) Land and buildings and plant and machinery were to be valued at ₹ 4,00,000 and ₹ 96,000 respectively.

(d) The vendors (sundry creditors) were to be allotted equity shares of the value of ₹ 4,20,000.

(e) The past working results of the firm showed that they had made profits of ₹ 1,20,000 in 2014, ₹ 1,44,000 in 2015 and ₹ 1,68,000 in 2016 after setting aside ₹ 8,000 to reserve fund each year.

You are required to show realisation account and partners' capital accounts in the books of the firm assuming that all the transactions are duly completed.

Amalgamation of Partnership firms

3. A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2017, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners

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of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

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

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

(a) Building was taken over at ₹ 1,00,000 and ₹ 1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at ₹ 1,25,000 and ₹ 1,10,000 of AB & Co. and CD & Co. respectively.

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

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

You are required to:

(i) Compute the adjustments necessary for goodwill.

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

Dissolution of partnership firm

4. (a) The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2016. Their balance sheet as on that date is given below:

Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Capital Accounts:		Land & Building	50,000

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P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows:

January 2017

- ₹ 9,000 - collected from debtors; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 - Liquidation expenses paid.
- ₹ 6,000 - Cash retained in the business at the end of month

February 2017

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 - Cash retained in the business at the end of month

March 2017

- ₹ 38,000 - received on the sale of remaining plant and machinery.
- ₹ 10,000 - received from the sale of entire stock.
- ₹ 1,700 - Liquidation expenses paid.
- ₹ 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

Issues related to Accounting in LLPs

(b) What are the liabilities of designated partners in a LLP. Explain in brief.

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ESOPs

5. A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

Buy Back of Securities

6. Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

Redemption of Debentures

7. Malik Ltd. have authorized capital of 8,00,000 equity shares of ₹ 10 each. But out of these 2,40,000 shares have been issued as fully paid.

The company has an outstanding 14% Debentures loan of ₹ 24,00,000 redeemable at 102 per cent and interest has been paid up to date on December 31, 2016. On that date, the balance of the Debenture Redemption Reserve Account is ₹ 20,00,000 and corresponding Investment Account ₹ 20,00,000 (at cost) of which the market value is ₹ 18,00,000.

The directors resolved to redeem the Debentures on January 1, 2017 and the holders are given an option to receive payment either wholly in cash or wholly in fully paid equity shares @ 8 shares for every ₹ 100 of debentures.

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75% of the holders decided to exercise the option for taking shares in repayment and cash for the rest is procured by realizing an adequate amount of investment at the prevailing market value.

Draw up journal entries (including Cash Book Entries) to give effect to the above transactions.

Underwriting of Shares and Debentures

8. Differentiate between "Firm underwriting" and "Partial underwriting along with firm underwriting".

Amalgamation of Companies

9. The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31-3-20X1:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

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On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	**463**
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	—	80
	2,120	**1,100**

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

Internal Reconstruction of a Company

10. Following is the summarized Balance Sheet of Ravi Limited as on 31st March, 2017.

Balance Sheet as on 31st March 2017

Liabilities	Amount ₹	Assets	Amount ₹
Authorised and Issued equity share capital:		Patent	4,00,000
30,000 shares of ₹100 each fully paid	30,00,000	Plant & machinery	30,00,000
20,000 7% cumulative preference shares of ₹100 each fully paid	20,00,000	Building	5,50,000
General Reserve	6,00,000	Trade receivables	23,50,000
Loan from Director	4,40,000	Inventory	16,30,000

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Trade Payables	24,60,000	Cash	1,20,000
Outstanding expenses	3,20,000	Bank Balance	2,30,000
Declared dividend	3,00,000	Profit and Loss account	8,40,000
	91,20,000		**91,20,000**

Note: The arrears of preference dividend amount to ₹ 2,80,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

(1) Equity shares to be converted into 3,00,000 shares of ₹10 each.

(2) Equity shareholders to surrender to the company 80 percent of their holdings.

(3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.

(4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 5,00,000 out of the surrendered equity shares.

(5) Directors agree to forego the amounts due on account of loan.

(6) Surrendered shares not otherwise utilized to be cancelled.

(7) Assets to be reduced as under:

	₹
Patent by	4,00,000
Plant & Machinery by	4,00,000
Inventory by	3,40,000

(8) Trade receivables to the extent of ₹ 17,00,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 7,00,000.

(10) Declared dividend is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 60,000.

(13) Further 40,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

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You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

Liquidation of Company

11. The following is the summarized Balance Sheet of Shah Ltd. Co. which is in the hands of the liquidator:

Balance Sheet as at 31.3.2017

Liabilities	₹	*Assets*	₹
Share Capital:		Fixed assets	2,00,000
1,000, 6% Preference Shares of ₹ 100 each, fully paid	1,00,000	Inventory Book debts	1,20,000 2,40,000
2,000 Equity shares of ₹ 100 each, fully paid	2,00,000	Cash in hand Profit and loss A/c	40,000 3,00,000
2,000 Equity shares of ₹ 100 each ₹ 75 paid up	1,50,000		
Loan from bank (on security of stock)	1,00,000		
Trade Payables	3,50,000		
	9,00,000		9,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

	₹
Fixed assets	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

Financial Statements of Insurance Companies

12. X Fire Insurance Co. Ltd. commenced its business on 1.4.20X1. It submits you the following information for the year ended 31.3.20X2:

	₹
Premiums received	15,00,000
Re-insurance premiums paid	1,00,000
Claims paid	7,00,000

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Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.20X2	1,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account for the year ended 31.3.20X2.

Banking Companies

13. The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2017:

	₹	₹
Rebate on bill discounted (not due on March 31st, 2016)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	*Due date*	*Rate of discount*
	₹	*2017*	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:-

(i) Calculate Rebate on Bill Discounted as on 31st March, 2017.

(ii) The amount of discount to be credited to the profit and loss account.

Departmental Accounts

14. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2016 after adjusting the unrealized department profits if any.

	Deptt. A	*Deptt. B*
	₹	*₹*
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

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General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

15. ABC Ltd. has head office at Delhi (India) and branch at New York (U.S.A). New York branch is an integral foreign operation of ABC Ltd. New York branch furnishes you with its trial balance as on 31st March, 2017 and the additional information given thereafter:

	Dr. ($)	*Cr. ($)*
Stock on 1st April, 2016	150	–
Purchases and sales	400	750
Sundry Debtors and creditors	200	150
Bills of exchange	60	120
Sundry expenses	540	–
Bank balance	210	–
Delhi head office A/c	–	540
	1,560	1,560

The rates of exchange may be taken as follows:

- on 1.4.2016 @ ₹ 40 per US $
- on 31.3.2017 @ ₹ 42 per US $
- average exchange rate for the year @ ₹ 41 per US $.

New York branch account showed a debit balance of ₹ 22,190 on 31.3.2017 in Delhi books and there were no items pending reconciliation.

You are asked to prepare trial balance of New York branch in ₹ in the books of ABC Ltd.

Framework for Preparation and Presentation of Financial Statements

16. (a) With regard to financial statements name any four.
    (1) Users
    (2) Qualitative characteristics
    (3) Elements
    (b) What are fundamental accounting assumptions?

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AS 4

17. (a) A company deals in petroleum products. The sale price of petrol is fixed by the government. After the Balance Sheet date, but before the finalisation of the company's accounts, the government unexpectedly increased the price retrospectively. Can the company account for additional revenue at the close of the year? Discuss in line with provisions of AS 4.

AS 5

(b) Explain whether the following will constitute a change in accounting policy or not as per AS 5.

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organistaion. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

AS 11

18. (a) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2017, when the exchange rate was ₹ 43 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2017 when the exchange rate was ₹ 47 per US Dollar. However, on 31st March, 2017, the rate of exchange was ₹ 48 per US Dollar. The company passed an entry on 31st March, 2017 adjusting the cost of raw materials consumed for the difference between ₹ 47 and ₹ 43 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

AS 12

(b) S Ltd. received a grant of ₹ 5,000 lakhs during the last accounting year (2015-16) from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2016-17, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the correct accounting treatment, with reference to the provisions of AS 12.

AS 16

19. (a) Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2016, to be utilized as under:

Particulars	*Amount (₹ in lakhs)*
Construction of factory building	40

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Purchase of Machinery	35
Working Capital	25

In March 2017, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2017 was ₹ 11,00,000. During the year 2016-17, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

AS 26

(b) During 2016-17, an enterprise incurred costs to develop and produce a routine, low risk computer software product, as follows:

	Amount (₹)
Completion of detailed programme and design	25,000
Coding and Testing	20,000
Other coding costs	42,000
Testing costs	12,000
Product masters for training materials	13,000
Packing the product (1,000 units)	11,000

What amount should be capitalized as software costs in the books of the company, on Balance Sheet date?

AS 20

20. (a) Compute Basic and Adjusted Earnings per share from the following information:

Net Profit for 2015-16	₹ 22 lakhs
Net Profit for 2016-17	₹ 33 lakhs
No. of shares before Rights Issue	1,10,000
Rights issue Ratio	One for Every Four Held
Rights Issue Price	₹ 180
Date of exercising Rights option	31.7.2016 (fully subscribed on this date)
Fair value of share before Rights Issue	₹ 270

All workings may be rounded off to two decimals.

AS 29

(b) An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

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SUGGESTED ANSWERS

1. (i) In the books of XYZ & Co.

Realisation Account

	₹		₹
To Plant & Machinery	5,00,000	By Trade payables	3,00,000
To Furniture & Fixture	50,000	By ABC Ltd. (Refer W.N.)	6,00,000
To Inventories	2,00,000	By Partners' Capital Accounts (loss):	
To Trade receivables	2,00,000	X's Capital A/c	20,000
		Y's Capital A/c	20,000
		Z's Capital A/c	10,000
	9,50,000		9,50,000

Partners' Capital Accounts

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash A/c	-	80,000	-	By Cash A/c	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	40,000	10,000	By Cash A/c (Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				

*It is assumed that cash at bank has been withdrawn to pay ₹ 80,000 to partner Y. However, payment to Y of ₹ 80,000 can also be made by cash ₹ 70,000 & by cheque ₹ 10,000.

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To Z	10,000				
	80,000	10,000		80,000	10,000

(ii) In the Books of ABC Ltd.

Journal Entries

			Dr. (₹)	*Cr. (₹)*
1.	Business Purchase Account	Dr.	6,00,000	
	To XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery Account	Dr.	5,00,000	
	Furniture and Fixture Account	Dr.	50,000	
	Inventories Account	Dr.	2,00,000	
	Trade Receivables Account	Dr.	2,00,000	
	To Trade Payables Account			3,00,000
	To Unrecorded Liability Account			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve Account (Bal. Fig.)			25,000
	(Being take over of all assets and liabilities)			
3.	XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owings eliminated)			

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.)

as at 31.3.2017

	Note No.	*₹*
Equity and Liabilities		
Shareholders funds		

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Share capital	1	25,00,000
Reserve and Surplus	2	8,25,000
Current liabilities		
Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
Non-current assets		
Fixed assets		
Tangible assets	3	23,75,000
Current assets		
Inventories (2,00,000 + 8,50,000)		10,50,000
Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

			₹
1.	*Share Capital*		
	2,50,000, Equity shares of ₹ 10 each fully paid up		25,00,000
	(out of which 50,000 shares has been issued for consideration other than cash)		
2	*Reserve and Surplus*		
	Securities Premium	1,00,000	
	Capital Reserve	25,000	
	General Reserve	7,00,000	8,25,000
3.	*Tangible assets*		
	Plant and Machinery (5,00,000 + 16,00,000)	21,00,000	
	Furniture and fixture (50,000 + 2,25,000)	2,75,000	23,75,000
4.	*Cash and cash equivalent*		
	Cash at Bank	4,00,000	
	Cash in hand	1,00,000	5,00,000

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Working Note:

Computation of purchase consideration:

50,000, Equity shares of ₹ 12 (10+2) each = ₹ 6,00,000

Equity shares distributed among partners:

Partner X	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Y	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Z	=	10,000 shares @ ₹ 12	= ₹ 1,20,000
			₹ 6,00,000

2. Books of A and V

Realisation Account

	₹	₹		₹
To Sundry debtors		2,40,000	By Sundry creditors	1,92,000
To Bills receivable		40,000	By Loan creditors	1,60,000
To Stock in trade		1,44,000	By Bank overdraft	64,000
To Patents		32,000	By Purchasing Company	8,40,000
To Plant and Machinery		64,000	(W.N. 2)	
To Land and Building		2,40,000		
To Capital A/c (Profit)				
A	2,48,000			
V	2,48,000	4,96,000		
		12,56,000		12,56,000

Partners' Capital Accounts

	A	V		A	V
	₹	₹		₹	₹
To Shares in Purchasing Co.	4,20,000	4,20,000	By Balance b/d	1,60,000	1,60,000
			By Reserves	12,000	12,000
			By Realization A/c	2,48,000	2,48,000
	4,20,000	4,20,000		4,20,000	4,20,000

Working Notes:

1. Goodwill = (1,20,000 + 1,44,000 + 1,68,000 + 24,000*)/3 x 2 Years = 3,04,000

   * Profit transferred to reserve @ ₹ 8,000 for 3 years.

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2. **Calculation of Purchase Consideration**

	₹	₹
Assets taken over:		
Goodwill (W.N.1)		3,04,000
Land and Buildings		4,00,000
Plant and Machinery		96,000
Debtors		2,40,000
Bills Receivable		40,000
Stocks		1,44,000
Patents		32,000
		12,56,000
Less: Liabilities taken over:		
Creditors	1,92,000	
Loan Creditors	1,60,000	
Bank Overdraft	64,000	4,16,000
Purchase Consideration		8,40,000

3. (i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			*Goodwill written off in new ratio*	*Difference*
	AB & Co.	*CD & Co.*	*Total*	*AD & Co.*	
	₹	₹	₹	₹	₹
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		20,000	20,000 Cr.	31,250 Dr.	11,250 Dr.
	75,000	50,000	1,25,000	1,25,000	

(ii) In the books of AD & Co.

Journal Entries

Date	*Particulars*		*Debit*	*Credit*
			₹	₹
April 1, 2017	Building A/c	Dr.	1,00,000	
	Machinery A/c	Dr.	1,25,000	
	Furniture A/c	Dr.	15,000	

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	Stock A/c	Dr.	24,000	
	Debtors A/c	Dr.	65,000	
	CD & Co. A/c	Dr.	47,000	
	Cash at bank A/c	Dr.	18,000	
	Cash in hand A/c	Dr.	4,000	
	To Provision for doubtful debts A/c			5,000
	To Creditors A/c			52,000
	To A's capital A/c (W.N. 2a)			2,10,667
	To B's capital A/c (W.N.2 a)			1,30,333
	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)			
April 1, 2017	Building A/c	Dr.	1,25,000	
	Machinery A/c	Dr.	1,10,000	
	Furniture A/c	Dr.	12,000	
	Stock A/c	Dr.	36,000	
	Debtors A/c	Dr.	78,000	
	Cash at bank A/c	Dr.	15,000	
	Cash in hand A/c	Dr.	5,000	
	To Provision for doubtful debts A/c			8,000
	To Creditors A/c			35,000
	To AB & Co. A/c			47,000
	To C's capital A/c (W.N. 2b)			1,74,600
	To D's capital A/c (W.N. 2b)			1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)			
	C's capital A/c	Dr.	16,875	
	D's capital A/c	Dr.	11,250	
	To A's capital A/c			18,750
	To B's capital A/c			9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)			
	AB & Co. A/c	Dr.	47,000	

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	To CD & Co. A/c			47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)			
	A's Capital A/c	Dr.	1,24,267	
	To A's Current A/c			1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)			
	B's Capital A/c	Dr.	87,133	
	To B's Current A/c			87,133
	(Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)			

Working Notes:

(1) Profit on Revaluation

	AB & Co.	*CD & Co.*
	₹	₹
Building (1,00,000 – 75,000)	25,000	
(1,25,000 – 90,000)		35,000
Machinery (1,25,000 – 1,20,000)	5,000	
(1,10,000 – 1,00,000)		10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.

(a) AB & Co.

	A's Capital	*B's Capital*
	₹	₹
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	2,10,667	1,30,333

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(b) CD & Co.

	C's Capital	*D's Capital*
	₹	₹
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	1,74,600	1,16,400

(3) Calculation of capital of each partner in the new firm

Particulars	*A*	*B*	*C*	*D*
	₹	₹	₹	₹
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital ₹ 4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8th of total capital; total capital will be 1,05,150 x 8/2 i.e. ₹ 4,20,600.

4. (a)

Particulars	*Cash*	*Creditors*	*Capitals*		
	₹	*₹*	*P (₹)*	*Q (₹)*	*R (₹)*
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	(3,000)
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				

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Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				
Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) **Highest Relative Capital Basis**

	P (₹)	*Q (₹)*	*R (₹)*
Scheme of payment for January 2017			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) **Scheme of distribution of available cash for March:**

	P (₹)	*Q (₹)*	*R (₹)*
Balance of Capital Accounts at end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2

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Capital / Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment ₹ 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	
Payment ₹ 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (₹ 89,300 – ₹ 22,500) = ₹ 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (₹ 89,000) (C + D +E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

(b) Liabilities of designated partners

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(1) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and

(2) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

5. In the books of Company

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-3-X2 to 31-3-X2	Bank A/c	Dr.	2,40,000	
	Employees compensation expenses A/c	Dr.	4,32,000	
	To Equity Share Capital A/c			48,000
	To Securities Premium A/c			6,24,000

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	(Being allotment to employees 4,800 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)		
31-3-X2	Profit and Loss account Dr. To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	4,32,000	4,32,000

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140 – ₹ 50 = ₹ 90 per share = ₹ 90 x 4,800 = ₹ 4,32,000 in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = ₹ 50 – ₹ 10 = ₹ 40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 x 4,800= ₹ 6, 24,000 in total.

6. In the books of Alpha Limited

Journal Entries

Date 2017	*Particulars*	*Dr.*	*Cr.* (₹ *in lakhs*)
April 1	Bank A/c Dr.	150	
	To Investment A/c		148
	To Profit on sale of investment		2
	(Being investment sold on profit)		
April 5	Equity share capital A/c Dr.	600	
	Securities premium A/c Dr.	300	
	To Equity shares buy back A/c		900
	(Being the amount due to equity shareholders on buy back)		
	Equity shares buy back A/c Dr.	900	
	To Bank A/c		900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)		
April 5	General reserve A/c Dr.	530	
	Profit and Loss A/c Dr.	70	

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	To Capital redemption reserve A/c		600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)		

Balance Sheet (After buy back)

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

			₹
1.	**Share Capital** Equity share capital (Fully paid up shares of ₹10 each)		1800

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2.	**Reserves and Surplus**			
	General Reserve	530		
	Less: Transfer to CRR	(530)	-	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Transfer due to buy-back of shares from Gen. res.	530	1,000	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	1,322
3.	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

7. Journal Entries

2017			₹	₹
Jan. 1	14% Debentures A/c	Dr.	24,00,000	
	Premium on Redemption of Debentures A/c	Dr.	48,000	
	To Debentures holders A/c			24,48,000
	(Being amount payable on redemption of ₹ 24,00,000 debentures at a premium of 2%)			
	Debenture Redemption Reserve A/c	Dr.	48,000	
	To Premium on Redemption of Debentures A/c			48,000
	(Being premium on redemption adjusted against Debenture Redemption Reserve A/c)			

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	Debenture holders A/c $\left(24,48,000 \times \frac{75}{100}\right)$	Dr.	18,36,000	
	To Equity Share Capital A/c (1,44,000 × ₹10)			14,40,000
	To Securities Premium A/c (1,44,000 x ₹ 2.75)			3,96,000
	(Being issue of 1,44,000 shares of ₹ 10 each at a premium of ₹ 2.75 per share to 75% debenture holders who exercised conversion option)			
	Bank A/c	Dr.	6,12,000	
	Debenture Redemption Reserve A/c	Dr.	68,000	
	To Debenture Redemption Reserve Investment A/c			6,80,000
	(Being investment sold at loss)			
	Debenture holders A/c (24,48,000 x 25%)	Dr.	6,12,000	
	To Bank A/c			6,12,000
	(Being cash payment to 25% debenture-holders)			
	Debenture Redemption Reserve A/c	Dr.	18,84,000	
	To General Reserve A/c			18,84,000
	(Being balance of Debenture Redemption Reserve A/c transferred on 100% redemption of debentures)			
	Investment A/c	Dr.	13,20,000	
	To Debenture Redemption Reserve Investment A/c			13,20,000
	(Being balance of Debenture Redemption Reserve Investment transferred to Investment (General) A/c)			

Working Notes:

(1)	For every ₹ 100 debenture, amount payable on redemption including premium is	₹ 102
	Less: Face value of 8 shares of ₹ 10 each to be issued for redemption of each debenture (8 × ₹ 10)	₹ 80

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	Premium on issue of 8 shares	₹ 22
	Therefore, premium on issue of each share $\left(\frac{₹\ 22}{8}\right)$	₹2.75
(2)	Shares to be issued for conversion of 75% Debentures into shares @ 8 shares for every ₹ 100 Debenture i.e. ₹24,00,000 $\times\frac{75}{100}\times\frac{8}{100}=1,44,000$ shares	
(3)	Cash payment for remaining 25% debenture holders who exercised the option of cash i.e., ₹24,00,000 $\times\frac{25}{100}\times\frac{102}{100}=$₹6,12,000	
(4)	Face value of investment to be sold to realize ₹ 6,12,000 will be ₹ 6,80,000 $\left(\text{i.e.}₹\frac{20,00,000}{18,00,000}\times₹\ 6,12,000\right)$	
	Loss on sale of investment = 6,80,000 – 6,12,000 = 68,000	
(5)	Debenture Redemption Reserve transferred to General Reserve: 20,00,000 – 48,000 – 68,000 = ₹ 18,84,000	

8. Distinction between firm underwriting and partial underwriting along with firm underwriting

In firm underwriting the underwriter agrees to subscribe upto a certain number of shares / debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken by the underwriter in addition to his liability for securities not subscribed by the public.

Under partial underwriting along with firm underwriting, unless otherwise agreed, individual underwriter does not get the benefit of firm underwriting in determination of number of shares/debentures to be taken up by him.

9. Books of P Ltd.

Journal Entries

		Dr.	*Cr.*
		(₹ in Lacs)	*(₹ in Lacs)*
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			

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Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit & loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

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Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	Notes	₹ (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorised, issued, subscribed and paid up	
24 crores equity shares of ₹ 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
Total	**24,000**
2. Reserves and Surplus	
General Reserve	9,700

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	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Tangible assets**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = ₹ 6,000 lacs × $\frac{3}{2}$ = ₹ 9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

10. Books of Ravi Ltd.

Journal Entries

Particulars		Debit (₹)	Credit (₹)
Equity Share Capital (₹ 100 each) a/c	Dr	30,00,000	
To Equity share capital (₹ 10 each) A/c			30,00,000
(Sub division of equity share into ₹ 10 each)			
Equity Share Capital (₹10) A/c	Dr.	24,00,000	
To Share surrendered A/c			24,00,000
(Surrender of 80% of share holding by equity share holders)			
7% Cumulative preference share capital A/c	Dr.	20,00,000	
To 8% cumulative preference share capital A/c			20,00,000

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(Conversion of 7% Cumulative Preference share capital into 8% Cumulative Preference share capital. They also forgo their right to arrears of dividends)			
Shares Surrendered A/c	Dr.	5,00,000	
To Equity share capital A/c			5,00,000
(Surrendered share issued against trade payables under reconstruction scheme)			
Declared Dividend A/c	Dr.	3,00,000	
Expenses of reconstruction A/c	Dr.	60,000	
To Bank A/c			3,60,000
(Dividend to Equity Share holder's and reconstruction expenses paid)			
Share surrendered A/c	Dr.	19,00,000	
To capital Reduction A/c			19,00,000
(Cancellation of unissued surrendered shares) (24,00,000-5,00,000)			
Loan from Director A/c	Dr.	4,40,000	
Trade Payables A/c	Dr.	6,15,000	
Building A/c	Dr.	1,50,000	
To Capital reduction A/c			12,05,000
(Amount sacrificed by directors and trade payables and appreciation in value of building)			
Capital reduction A/c	Dr.	31,05,000	
To Patent A/c			4,00,000
To Trade receivables A/c			6,50,000
To Inventory A/c			3,40,000
To Profit and Loss A/c			8,40,000
To Expenses on Reconstruction A/c			60,000
To Plant A/c (bal. fig)			8,15,000
(Various assets and expenses written off)			
Bank A/c	Dr.	4,00,000	
To Share application money A/c			4,00,000
(Application money received on full and final payment)			

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Share application money A/c	Dr.	4,00,000	
To Share capital A/c			4,00,000
(Being 40,000 equity shares of ₹ 10 each issued and fully paid up)			

Note: Cancellation of preference dividend need not be journalised. On cancellation, it ceases to be contingent liability and hence no further disclosure required.

Balance Sheet of Ravi Ltd. (and Reduced) as at 31st March, 2017

	Particulars	Note	Amount (₹)
I.	**EQUITY AND LIABILITIES**		
	1. Shareholders' funds		
	a. Share capital	1	35,00 000
	b. General reserve		6,00 000
	2. Current liabilities		
	a. Trade payables (24,60,000-6,15,000)		18,45,000
	b. Other current liabilities (outstanding expenses)		3,20,000
	Total		62,65,000
II.	**ASSETS**		
	1. Non-current assets		
	Fixed assets		
	i. Tangible assets	2	28,85,000
	ii. Intangible assets	3	-
	2. Current assets		
	a. Inventories (16,30,000- 3,40,000)		12,90,000
	b. Trade receivables (23,50,000- 6,50,000)		17,00,000
	c. Cash and cash equivalents	4	3,90,000
	Total		62,65,000

Notes to the financial statements

(1) Share capital

	Particulars	Amount (₹)
a.	Authorised	
	• 3,00,000 equity shares of ₹10 each	30,00,000

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	• 20,000 8% cumulative preference shares of ₹100 each	20,00,000
b.	Issued, subscribed and fully paid up • 1,50,000 equity shares of ₹10 each (of the above, 50,000 shares were issued as fully paid up for consideration other than cash under the scheme of reconstruction) • 20,000 8% cumulative preference shares of ₹100 each	15,00,000 20,00,000
	Total	**35,00,000**

(2) Tangible assets

Particulars	₹
Plant (30,00,000-8,15,000)	21,85,000
Building (5,50,000 + 1,50,000)	7,00,000
Total	28,85,000

(3) Intangible assets

Particulars	**₹**
Patent (4,00,000-4,00,000)	-

(4) Cash and cash equivalents

	Particulars	**₹**
a.	Balance with bank (2,30,000-3,00,000-60,000+4,00,000)	2,70,000
b.	Cash on hand	1,20,000
	Total	3,90,000

11. Liquidator's Final Statement of Receipts and Payments A/c

	₹	₹		₹
To Cash in hand		40,000	By Liquidator's remuneration and expenses	5,000
To Assets realised:				
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000
(1,10,000 – 1,00,000)	10,000		By Equity shareholders @	
Book debts	2,30,000	4,08,000	₹ 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15*		27,000		
		4,75,000		4,75,000

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Working Note:

Return per equity share

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share= $\frac{₹\ 38,000}{3,800\ (4,000-200)} = ₹\ 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

*Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

12. Form B – RA (Prescribed by IRDA)

Name of the Insurer: X Fire Insurance Co. Ltd.

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

Revenue Account for the year ended 31st March, 20X2

	Particulars	*Schedule*	*Current year ended on 31st March, 20X2*
			₹
1.	Premium earned (Net)	1	7,00,000
	Total (A)		7,00,000
1.	Claims incurred (Net)	2	8,00,000
2.	Commission	3	50,000
3.	Operating Expenses related to insurance business	4	3,00,000
	Total (B)		11,50,000
	Operating Profit/(Loss) from Fire Insurance Business [C = (A – B)]		(4,50,000)

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Schedule 1

Premium earned (Net)

	₹
Premium received from direct business written	15,00,000
Less: Premium on re-insurance ceded	(1,00,000)
	14,00,000
Adjustment for change in reserve for unexpired risk	7,00,000
Net Premium Earned	7,00,000

Schedule 2

Claims incurred (Net)

	₹
Claims paid – Direct	7,00,000
Add: Claims outstanding on 31.3.20X2	1,00,000
Total claims incurred	8,00,000

Schedule 3

Commission

Commission paid	50,000
Net commission	50,000

Schedule 4

Operating expenses related to insurance business

	₹
Expenses of Management	3,00,000

13. (i) Calculation of Rebate on bills discounted

S.No.	*Amount (₹)*	*Due date 2017*	*Unexpired portion*	*Rate of discount*	*Rebate on bill discounted ₹*
(i)	7,50,000	April 8	8 days	12%	1,972
(ii)	3,00,000	May 5	35 days	14%	4,028
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	41,820
					60,140

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(ii) Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discount as on 31st March, 2016	91,600
Add: Discount received during the year ended 31st March, 2017	4,05,000
	4,96,600
Less: Rebate on bills discounted as on 31st March, 2017	60,140
Discount credited to the Profit and Loss Account	4,36,460

14. Departmental Trading and Loss Account of M/s Division

For the year ended 31st December, 2016

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

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Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

15. In the books of ABC Ltd.

New York Branch Trial Balance in (₹)
as on 31st March, 2017

	Conversion rate per US $ *(₹)*	*Dr.* *₹*	*Cr.* *₹*
Stock on 1.4.16	40	6,000	–
Purchases and sales	41	16,400	30,750
Sundry debtors and creditors	42	8,400	6,300
Bills of exchange	42	2,520	5,040
Sundry expenses	41	22,140	–
Bank balance	42	8,820	–
Delhi head office A/c	–	–	22,190
		64,280	64,280

16. (a) (1) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b) Fundamental Accounting Assumptions:

Accrual, Going Concern and Consistency

17. (a) According to para 8 of AS 4, the unexpected increase in sale price of petrol by the government after the balance sheet date cannot be regarded as an event occurring after the Balance Sheet date, which requires an adjustment at the Balance Sheet date, since it does not represent a condition present at the balance sheet date. The

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revenue should be recognized only in the subsequent year with proper disclosures.

(b) As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(ii) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

18. (a) As per AS 11 (revised 2003), 'The Effects of Changes in Foreign Exchange Rates', monetary items denominated in a foreign currency should be reported using the closing rate at each balance sheet date. The effect of exchange difference should be taken into profit and loss account. Trade payables is a monetary item, hence should be valued at the closing rate i.e., ₹ 48 at 31st March, 2017 irrespective of the payment for the same subsequently at lower rate in the next financial year. The difference of ₹ 5 (₹ 48 less ₹ 43) per US dollar should be shown as an exchange loss in the profit and loss account for the year ended 31st March, 2017 and is not to be adjusted against the cost of raw materials. In the subsequent year, the company would record an exchange gain of ₹1 per US dollar, i.e., the difference between ₹ 48 and ₹ 47 per US dollar. Hence, the accounting treatment adopted by the company is incorrect.

(b) As per AS 12 'Accounting for Government Grants', Government grants sometimes become refundable because certain conditions are not fulfilled. A government grant that becomes refundable is treated as an extraordinary item as per AS 5.

The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement.

In the present case, the amount of refund of government grant should be shown in the profit and loss account of the company as an extraordinary item during the year 2016-17.

19. (a) According to para 6 of AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

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Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be Capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

(b) As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, ₹ 45,000 would be recorded as an expense (₹ 25,000 for completion of detailed program design and ₹ 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (₹ 42,000 + ₹ 12,000 + ₹ 13,000) ₹ 67,000.

20. (a) Computation of earnings per share

EPS for the year 2015-16 as originally reported

= ₹ 22,00,000/1,10,000 shares = ₹ 20

EPS for the year 2015-16 restated for rights issue

= ₹ 22,00,000/ (1,10,000 shares x 1.07) = ₹ 18.69

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EPS for the year 2016-17 including effects of rights issue

Adjusted No. of Shares = (1,10,000 x 1.07 x 4/12) + (1,37,500 x 8/12) = 1,30,900

$$\text{EPS} = \frac{33,00,000}{1,30,900} = 25.21$$

Working Note:

1. Calculation of Theoretical ex-rights fair value per share

$$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{(₹\ 270 \times 1,10,000 \text{ shares}) + (₹\ 180 \times 27,500 \text{ Shares})}{1,10,000 + 27,500 \text{ Shares}} = 3,46,50,000/1,37,500$$

Theoretical ex-rights fair value per share = ₹ 252

2. Calculation of Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$$\frac{₹\ (270)}{₹\ (252)} = 1.071$$

(b) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

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