PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For November, 2018 EXAMINATION

A. Applicable for November, 2018 Examination

I. Applicability of the Companies Act, 2013 and other Legislative Amendments

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April, 2018 will be applicable for November, 2018 Examination.

II. Maintenance of Statutory Liquidity Ratio (SLR)

Section 24 and Section 56 of the Banking Regulation Act, 1949 – Maintenance of SLR and holdings of SLR in HTM category

It has been decided to reduce the SLR requirement of banks from 20.0 per cent of their Net Demand and Time Liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017 as announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017. The related notification is DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 4, 2017.

Currently, the banks are permitted to exceed the limit of 25 per cent of the total investments under HTM category, provided the excess comprises of SLR securities and total SLR securities held under HTM category are not more than 20.5 per cent of NDTL. In order to align this ceiling on the SLR holdings under HTM category with the mandatory SLR, it has been decided to reduce the ceiling from 20.5 per cent to 19.5 per cent in a phased manner, i.e. 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, i.e., in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3 (ii) of the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

III. 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.

Note: Chapters No.2, 12, 13 and 14 have been revised and the revised chapters have been web hosted at the BoS Knowledge Portal.

B. Not applicable for November, 2018 examination

I - Non-Applicability of Ind AS for November, 2018 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 are not applicable for November, 2018 Examination.

II- The Guidance Note on 'Accounting for Depreciation in Companies in context of schedule II to the Companies Act, 2013' is not applicable for November 2018 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Employee Stock Option Plans

1. (a) JKS Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2018 it granted 5,000 employee stock options at ₹ 30 per share, when the market price was ₹ 50 per share. The options were to be exercised between 15th March, 2018 and 31st March, 2018. The employees exercised their options for 3,600 shares only and the remaining options lapsed. The company closes its books on 31st March every year. You are required to prepare journal entries (with narration) as would appear in the books of the company up to 31st March, 2018.

(b) At the beginning of year 1, the enterprise grants 1,000 stock options to each member of its sales team, conditional upon the employees remaining in the employment of the enterprise for three years, and the team selling more than 50,000 units of a particular product over the three-year period. The fair value of the stock options is ₹ 15 per option at the date of grant.

During year 2, the enterprise increases the sales target to 1,00,000 units. By the end of year 3, the enterprise has sold 55,000 units, and the stock options do not vest.

Twelve members of the sales team have remained in service for the three-year period. You are required to examine and give comment in light of the relevant Guidance Note that whether the company should recognise the expenses on the base of options granted or not.

Also state will your answer differ if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years.

Buy Back of Securities

2. The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	₹	₹
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of ₹ 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹ 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of ₹ 100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000

Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹ 60 per share. For this purpose, it sold all of its investment for ₹ 25,00,000.

The company achieved its target of buy-back. You are required to:

(a) Give necessary journal entries and

(b) Give the Balance Sheet of the company after buy back of shares.

Differential rights

3. (a) Explain the meaning of equity shares with differential rights. Can preference shares be also issued with differential rights?

(b) E, F, G and H hold Equity Capital in Alpha Co. in the proportion of 30:30:20:20. S, T,U and V hold preference share capital in the proportion of 40:30:10:20. If the paid up capital of the company is ₹ 120 Lakh and Preference share capital is ₹ 60 Lakh, You are required to calculate their voting rights in case of resolution of winding up of the company.

Underwriting of Shares

4. M/s. Abhi Ltd. issued 2,00,000 shares of ₹ 10 each at a premium of ₹ 20. The entire issue was underwritten as follows:

Amit – 1,20,000 shares (Firm underwriting 10,000 shares)

Sumit – 50,000 shares (Firm underwriting 6,000 shares)

Lalit – 30,000 shares (Firm underwriting 4,000 shares)

Unmarked applications received by the company (excluding firm underwriting) were 25,000 shares.

The marked applications (excluding firm underwriting) were as follows:

Amit – 80,000 shares

Sumit – 35,000 shares

Lalit– 24,800 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters. You are required to :

(i) Calculate the liability of each underwriter (number of shares);

(ii) Compute the amounts payable to or due from underwriters; and

(iii) Prepare Journal Entries in the books of the company relating to underwriting.

Amalgamation of Companies

5. The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	*Alex Ltd. (₹)*	*Beta Ltd. (₹)*
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	37,80,000	15,96,000
Liabilities	*Alex Ltd. (₹)*	*Beta Ltd. (₹)*
Share Capital:		
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000

Beta Ltd.is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(a) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(b) Prepare the acquisition entries in the books of Alex Ltd.

(c) Also prepare the Balance Sheet after absorption as at 31st March, 2017.

Internal Reconstruction of a Company

6. The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	**Amount in ₹**
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	**81,00,000**
Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000

Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	**81,00,000**

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

Liquidation of Company

7. Liquidation of YZ Ltd. commenced on 2nd April, 2018. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2017 and 2018:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2017	₹ 5,000
P	1,500	1st May, 2017	₹ 3,300
Q	1,000	1st October, 2017	₹ 4,300
R	500	1st November, 2017	₹ 4,600
S	300	1st February, 2018	₹ 6,000

All the shares were of ₹ 10 each, ₹ 8 per share paid up. You are required to compute the amount to be realized from the various persons listed above ignoring expenses and remuneration to liquidator etc.

Financial Reporting of Insurance Companies

8. From the following information furnished to you by Bharat Insurance Co. Ltd., you are required to prepare Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2017.

(a) On 1.04.2016, it had reserve for unexpired risks amounting to ₹ 55 crores. It comprised of ₹ 21 crores in respect of marine insurance business, ₹ 28 crores in respect of fire insurance business and ₹ 6 crores in respect of miscellaneous insurance business.

(b) Bharat Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

(c) During 2016 -17, the following business was conducted:

	(₹ in crores)		
	Marine	Fire	Miscellaneous
Premium collected from:			
(a) Insured in respect of policies issued (Direct Business)	22.0	46.00	13.00

(b) Other insurance companies in respect of risks undertaken:			
Received during the year	11.5	9.2	5.5
Receivable – 01.04.16	7.0	3.0	1.5
Receivable – 31.03.17	4.0	1.0	1.0
Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8.0

Financial Reporting of Banking Companies

9. From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Supreme Bank Limited' for the year ending 31st March, 2018:

Income	₹ in lakhs	**Expenditure**	₹ in lakhs
Interest and discount	1,835	Interest expended	1,136
Interest accrued on Investments	8	Printing & stationery	18
Commission, exchange and brokerage	12	Repair & maintenance	2
Profit on sale of investments	1	Payment to and provision for employees (salaries, bonus etc.)	80
Rent received	2	Other Operating Expenses	5

Additional Information:

		₹ in lakhs
(i)	Rebate on bills discounted to be provided for	3
(ii)	Classifications of Advances:	
	Standard Assets	4,100
	Sub-Standard Assets (fully secured)	380
	Doubtful Assets not covered by security	155
	Doubtful Assets covered by security	
	For 1 year	10
	More than 1 year, but less than 2 years	18
	More than 2 year, but less than 3 years	35
	More than 3 year	22

	Loss Assets	50
(iii)	Make tax provision @ 35% of the profit.	
(iv)	Profit and Loss Account (Cr.) brought forward from the previous year	65

NBFCs

10. Lokraj Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss A/c		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		(₹ in crore)	(₹ in crore)
Washing Machines	Upto 12 months	450.00	20,550.00
Air Conditioners	For 24 months	25.25	675.00
Music systems	For 30 months	15.25	225.00
Refrigerators	For 21 months	60.15	1,050.00
Air purifiers	Upto 12 months	18.25	980.00
LCD Televisions	For 45 months	420.00	21,200.00

You are required to calculate the amount of additional provision to be made.

Mutual Funds

11. (a) A Mutual Fund has launched a new scheme "All Purpose Scheme". The Mutual Fund Asset Management Company wishes to invest 25% of the NAV of the Scheme in an unrated debt instrument of a company Y Ltd. which has been paying above average returns for the past many years. The promoters of the company seek your professional advice in light of the Regulations of SEBI. You are required to examine and give your opinion.

(b) Omega Mutual Fund is registered with SEBI and having its registered office at Mumbai. The fund is in the process of finalizing the annual statement of accounts of one of its open ended mutual fund schemes. From the information furnished below, you are required to prepare a statement showing the movement of unit holders' funds for the financial year ended 31st March, 2018.

	₹ '000
Opening Balance of net assets	18,00,000
Net Income for the year (Audited)	1,27,500

12,75,300 units issued during 2017-2018	1,44,750
11,28,450 units redeemed during 2017-2018	1,06,980
The par value per unit is ₹ 100	

Valuation of Goodwill

12. From the following information relating to Radheshyam Ltd., you are required to calculate the value of goodwill as per(a) equity approach and (b) long term fund approach.

(i)	Current cost of capital employed	₹ 41,60,000
(ii)	Profit earned after current cost adjustments	₹ 6,88,000
(iii)	12% long term loan	₹ 18,00,000
(iv)	Normal rate of return:	
	On Equity capital employed	14%
	On Long-term capital employed	12.5%

Consolidated Financial Statements

13 The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	Amounts as at 31st March, 2017	
	X Ltd. (₹ in lakhs)	**Y Ltd. (₹ in lakhs)**
LIABILITIES		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of ₹ 10 each, fully paid up	15,000	6,000
15% preference shares of ₹ 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	25,896	**10,727**
ASSESTS		
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600

Furniture & Fittings	1,945	655
Investment in Y Ltd.:		
450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	**10,727**

The following information is also given to you

(a) 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.

(b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was ₹ 650 Lakhs.

(c) General Reserve of Y Ltd. stood at same ₹ 1,450 Lakhs as on 1st April, 2016.

(d) Y Ltd.'s Plant & machinery showed a balance of ₹ 4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by ₹ 1,000 Lakh.

(e) Included in Trade Payables of Y Ltd. are ₹ 50 Lakh for goods supplied by X Ltd.

(f) On 31st March, 2017, Y's ltd. inventory included goods for ₹ 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. (Ignoring dividend on preference shares).

Guidance Notes

14. R Ltd. is engaged in manufacture and sale of industrial and consumer products. One of its division deals in Leasing of properties. This division is continuously engaged in leasing of properties. The accountant showed the rent arising from leasing of properties as 'other income' in the Statement of Profit and Loss. You are required to advise whether the classification of the rental income made by the accountant is correct or not in light of Schedule III to the companies Act, 2013?

Accounting standards

AS 7 Construction Contracts

15. (a) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2018 and is likely to be completed by the next financial year. The contract is for a fixed

price of ₹ 12 crores with an escalation clause. You are given the following information for the year ended 31.03.2018:

Cost incurred upto 31.03.2018 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and compute the amount of revenue and profit to be recognized for the year as per AS-7.

AS 9 Revenue Recognition

(b) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

(i) On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9

AS 18 Related Party Transactions

16. (a) Sun Ltd. sold goods for ₹ 50 lakhs to Moon Ltd. during financial year ended 31st March 2017 at normal selling price followed by Sun Ltd. The Managing Director of Sun Ltd. holds 75% shares of Moon Ltd. The Chief accountant of Sun Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. You are required to examine and advise whether the contention of the Chief Accountant is correct?

AS 19 Leases

(b) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 40,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

AS 20 Earnings Per Share

17 The following information is available for TON Ltd. for the accounting year 2015-16 and 2016-17:

	Net profit for	₹
Year	2015-16	35,00,000
Year	2016-17	45,00,000

No of shares outstanding prior to right issue 15,00,000 shares.

Right issue : One new share for each 3 shares outstanding i.e. 5,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise rights 31st July, 2016

Fair value of one equity share immediately prior to exercise of rights on 31.07.2016 is ₹ 35.

You are required to compute:

(i) Basic earnings per share for the year 2015-16.

(ii) Restated basic earnings per share for the year 2015-16 for right issue.

(iii) Basic earnings per share for the year 2016-17.

AS 24 Discontinuing Operations

18 Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

AS 26 Intangible Assets

19 Desire Ltd. acquired a patent at a cost of ₹ 1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on SLM. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 45,00,000, ₹ 42,00,000, ₹ 40,00,000, ₹ 38,00,000 and ₹ 35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows).

You are required to compute the amortization cost of the patent for each of the years (1st year to 7th year).

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20 M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lakhs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? You are required to explain in brief giving reasons for your answer.

SUGGESTED ANSWERS

1. (a) Journal Entries in the books of JKS Ltd

			₹	₹
15.03.2018 to 31.3.18	Bank A/c (3,600 x ₹ 30)	Dr.	1,08,000	
	Employee compensation expense A/c (3,600 x ₹20)	Dr.	72,000	
	To Equity share capital A/c (3600 x ₹10)			36,000
	To Securities premium A/c (3600 x ₹40)			1,44,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.18	Profit and Loss A/c	Dr.	72,000	
	To Employee compensation expenses A/c			72,000
	(Being transfer of employee compensation expenses transfer to Profit and Loss Account)			

Working Notes:

1. No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st January 2018;
2. Market Price = ₹ 50 per share and stock option price = ₹ 30, Hence, the difference ₹ 50 – ₹ 30 = ₹ 20 per share is equivalent to employee cost or employee compensation expense and will be charged to P &L Account as such for the number of options exercised i.e. 3,600 shares.

(b) Paragraph 19 of the Guidance Note on Share Based Payments requires, for a performance condition that is not a market condition, the enterprise to recognize the services received during the vesting period based on the best available estimate of the number of shares or stock options expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of shares or stock options expected to vest differs from previous estimates. On vesting date, the enterprise revises the estimate to equal the number of instruments that ultimately vested. However, paragraph 24 of the Guidance Note requires, irrespective of any modifications to the terms and conditions on which the instruments were granted, or a cancellation or settlement of that grant of instruments, the enterprise to recognize, as a minimum, the services received, measured at the grant date fair value of the instruments granted, unless those instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

Furthermore, paragraph 26(c) of the Guidance Note specifies that, if the enterprise modifies the vesting conditions in a manner that is not beneficial to the employee, the enterprise does not take the modified vesting conditions into account when applying the requirements for treatment of vesting conditions as specified in Guidance Note.

Therefore, because the modification to the performance condition made it less likely that the stock options will vest, which was not beneficial to the employee, the enterprise takes no account of the modified performance condition when recognizing the services received. Instead, it continues to recognize the services received over the three-year period based on the original vesting conditions. Hence, the enterprise ultimately recognizes cumulative remuneration expense of ₹ 1,80,000 over the three-year period (12 employees × 1,000 options × ₹ 15).

The same result would have occurred if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the enterprise would take no account of the modified service condition when recognizing the services received. Instead, it would recognize the services received from the twelve employees who remained in service over the original three-year vesting period.

2. Journal Entries in the books of Pee Limited

	Particulars		***Dr.***	***Cr.***
(i)	Bank Account	Dr.	25,00,000	
	Profit and Loss Account	Dr.	5,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buy back)			

(ii)	Equity Share capital account	Dr.	4,80,000	
	Premium payable on buy back Account	Dr.	24,00,000	
	To Equity shares buy back Account			28,80,000
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	24,00,000	
	To Premium payable on buy back Account			24,00,000
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue Reserve Account	Dr.	1,80,000	
	To Capital Redemption Reserve Account			1,80,000
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000)			
(v)	Equity shares buy-back Account	Dr.	28,80,000	
	To Bank Account			28,80,000
	(Being the payment made on buy back)			

Balance Sheet of Pee Limited as on 1st April, 2017

(After buy back of shares)

Particulars	*Note No*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

Notes to Accounts

			₹
1	**Share Capital**		
	Authorised capital:		30,00,000

	Issued and subscribed capital:			
	1,92,000 Equity shares of ₹ 10 each fully paid up		1,92,0000	
	3,000 10% Preference shares of ₹ 100 each fully paid up		3,00,000	22,20,000
	Reconciliation of share capital			
	Opening no. of shares		2,40,000	
	Buy back of shares during the year		48,000	1,92,000
	During the year the company has buy back of 48,000 shares			
2	**Reserves and Surplus**			
	Capital reserve		10,00,000	
	Capital redemption reserve		1,80,000	
	Securities Premium	27,00,000		
	Less: Premium payable on buy back of shares	24,00,000	3,00,000	
	Revenue reserve	25,00,000		
	Less: Transfer to Capital redemption reserve	1,80,000	23,20,000	
	Profit and loss A/c	35,00,000		
	Less: Loss on investment	5,00,000	30,00,000	68,00,000

3. **(a)** Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. No; the preference shares cannot be issued with differential rights.

(b) E, F, G and H hold Equity capital is held by in the proportion of 30:30:20:20 and S,T,U and V hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is ₹ 120 Lakhs and Preference share capital is ₹ 60 Lakhs & (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

E = 2/3X30/100 = 3/15

F = 2/3X30/100 = 3/15

G = 2/3X20/100 = 2/15

H = 2/3X20/100 = 2/15

S = 1/3X40/100 = 2/15

T = 1/3X30/100 = 1/10

U = 1/3X10/100 = 1/30

V = 1/3X20/100 = 1/15

4. (i) Computation of total liability of underwriters in shares

	(In shares)			
	Amit	*Sumit*	*lalit*	*Total*
Gross liability	1,20,000	50,000	30,000	2,00,000
Less: Marked applications (excluding firm underwriting)	(80,000)	(35,000)	(24,800)	(1,39,800)
	40,000	15,000	5,200	60,200
Less: Unmarked applications in the ratio of gross liabilities of 12:5:3 (excluding firm underwriting)	(15,000)	(6,250)	(3,750)	(25,000)
	25,000	8,750	1,450	35,200
Less: Firm underwriting	(10,000)	(6,000)	(4,000)	(20,000)
	15,000	2,750	(2,550)	15,200
Less: Surplus of Lalit adjusted by Amit and Sumit in 12:5	(1,800)	(750)	2,550	____
Net liability	13,200	2,000	-	15,200
Add: Firm underwriting	10,000	6,000	4,000	20,000
Total liability	23,200	8,000	4,000	35,200

(ii) Calculation of amount payable to or due from underwriters

	Amit	*Sumit*	*Lalit*	*Total*
Total Liability in shares	23,200	8,000	4,000	35,200
Amount receivable @ ₹ 30 from underwriter (in ₹)	6,96,000	2,40,000	1,20,000	10,56,000
Less: Underwriting Commission payable @ 5% of ₹ 30 (in ₹)	(1,80,000)	(75,000)	(45,000)	(3,00,000)
Net amount receivable (in ₹)	5,16,000	1,65,000	75,000	7,56,000

(iii) Journal Entries in the books of the company (relating to underwriting)

			₹	₹
1.	Amit	Dr.	6,96,000	
	Sumit	Dr.	2,40,000	
	Lalit	Dr.	1,20,000	
	To Share Capital A/c			3,52,000

	To Securities Premium A/c			7,04,000
	(Being allotment of shares to underwriters)			
2.	Underwriting commission A/c	Dr.	3,00,000	
	To Amit			1,80,000
	To Sumit			75,000
	To Lalit			45,000
	(Being amount of underwriting commission payable)			
3.	Bank A/c	Dr.	7,56,000	
	To Amit			5,16,000
	To Sumit			1,65,000
	To Lalit			75,000
	(Being net amount received by underwriters for shares allotted less underwriting commission)			

5. (a) In the Books of Beta Ltd.

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(b) In the Books of Alex Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	

To 8% Preference Share Capital A/c		3,08,000
To Equity Share Capital A/c		11,20,000
To Securities Premium A/c		56,000
(Being Purchase Consideration satisfied as above).		

(c) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2017

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	3	31,08,000
		Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

	₹
1 Share Capital	
Equity share capital	
3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000

	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**Tangible assets**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

6. Journal Entries in the Books of Z Ltd.

			Dr.	*Cr.*
			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures outstanding A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000

	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	

	To Goodwill A/c		10,00,000
	To Patent A/c		5,00,000
	To Profit and Loss A/c		14,60,000
	To Discount on issue of Debentures A/c		1,00,000
	To Plant and Machinery A/c		6,50,000
	To Furniture & Fixture A/c		1,00,000
	To Trade Investment A/c		50,000
	To Inventory A/c		2,50,000
	To Trade Receivables A/c		1,00,000
	To Capital Reserve (bal. fig.)		7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)		

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000		
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share Capital A/c	25,00,000
To Bank (reconstruction expenses)	15,000		
To Goodwill	10,00,000	By 9% Pref. Share	

To	Patent	5,00,000		Capital A/c	10,00,000
To	P & L A/c	14,60,000	By	Mr. Y (Settlement)	5,78,000
To	Discount on issue of debentures	1,00,000	By	Mr. Z (Settlement)	3,82,000
To	P & M	6,50,000	By	Trade Payables A/c	1,70,000
To	Furniture and Fixtures	1,00,000	By	Director's loan	60,000
To	Trade investment	50,000	By	Bank	1,00,000
To	Inventory	2,50,000	By	Provision for tax	25,000
To	Trade Receivables	1,00,000	By	Land and Building	2,00,000
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			50,15,000

7. Statement of liabilities of B list contributories

Share-holders	*No. of shares transferred*	*Maximum liability (upto ₹ 2 per share)*	*Division of Liability as on 1.5. 2017*	*1.10. 2017*	*1.11. 2017*	*1.2. 2018*	*Total*
		₹	₹	₹	₹	₹	₹
P	1,500	3,000	1,500	–	–	–	1,500
Q	1,000	2,000	1,000	555	–	–	1,555
R	500	1,000	500	278	188	–	966
S	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	*Cumulative liability*	*Increase in liability*	*Ratio of no. of shares held by the members*
1.5.2017	3,300	–	30 : 20 : 10 : 6
1.10.2017	4,300	1,000	20 : 10 : 6
1.11.2017	4,600	300	10 : 6
1.2.2018	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of ₹ 600, therefore amount payable by S is restricted to ₹ 21 only, on 1.2.2018.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2017 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

8. **In the books of Bharat Insurance Co. Ltd.**

Journal Entries

Date	*Particulars*		*(₹ in crores)*	
			Dr.	*Cr.*
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	28	
	Unexpired Risk Reserve (Marine) A/c	Dr.	21	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	6	
	To Fire Revenue Account			28
	To Marine Revenue Account			21
	To Miscellaneous Revenue Account			6
	(Being unexpired risk reserve brought forward from last year)			
31.03.2017	Marine Revenue A/c	Dr.	23	
	To Unexpired Risk Reserve A/c			23
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to ₹ 23 crores i.e.22+8.5-7.5)			
	Fire Revenue A/c	Dr.	23.95	
	To Unexpired Risk Reserve A/c			23.95
	(Being closing reserve for unexpired risk created at 50% of net premium income of ₹ 47.90 crores i.e.46+7.2-5.3)			
	Miscellaneous Revenue A/c	Dr.	5	
	To Unexpired Risk Reserve A/c			5
	(Being closing reserve for unexpired risk created at 50% net premium income of ₹10 crores i.e. 13+5-8)			

Unexpired Risk Reserve Account

Date		*Particulars*	*Marine*	*Fire (₹)*	*Misc. (₹)*	*Date*		*Particulars*	*Marine (₹)*	*Fire (₹)*	*Misc. (₹)*
1.4.2016	To	Revenue A/c	21	28	6	1.4.2016	By	Balance b/d	21	28	6
31.3.2017	To	Balance c/d	23	23.95	5	31.3.2017	By	Revenue A/c	23	23.95	5
			44	51.95	11				44	51.95	11

Working Note:

Premium from other insurance companies in respect of risk undertaken:

Received during the year	11.5	9.2	5.5
Less: Receivable – 01.04.16	(7.0)	(3.0)	(1.5)
Add: Receivable – 31.03.17	4.0	1.0	1.0
	8.5	*7.2*	*5.0*

9. (a) Calculation of Provisions and Contingencies

(i) **Provision on Non-Performing Assets**

			₹in lakhs
Particulars	*Amount*	*% of Provision*	*Provision*
Standard Assets	4,100	0.4	16.40
Sub-standard Assets	380	15	57
Doubtful Assets not covered by security	155	100	155
Doubtful Assets covered by security:			
For 1 year	10	25	2.50
More than 1 year, but less than 2 years	18	40	7.20
More than 2 years & but less than 3 years	35	40	14
More than 3 years	22	100	22
Loss Assets	50	100	50
	4,770		324.10

(ii) **Calculation of Provision for tax** = 35% of [Total Income – Total Expenditure (excluding tax)]

= 35% of [(1,840 +15) – (1,136+105+324.10)] = ₹ 101.47 lakhs

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

= 324.10 + 101.47 = ₹ 425.57 lakhs

(b) **Supreme Bank Limited**

Profit and Loss Account for the year ended 31st March, 2018

	Particulars	*Schedule No.*	*₹ in lakhs*
I	**Income**		
	Interest Earned	13	1,840
	Other Income	14	15
			1,855
II	**Expenditures**		
	Interest Expended		1,136
	Operating Expenses	16	1,05
	Provisions & Contingencies		425.57
			1,666.57
III	**Profit/Loss**		
	Net Profit/Loss for the year		188.43
	Profit/Loss brought forward		65
			253.43
IV	**Appropriations**		
	Transfer to Statutory Reserve @ 25% of 188.43		47.11
	Transfer to Other Reserves		-
	Balance carried over to Balance Sheet		206.32
			253.43
	Schedule 13 – Interest earned		
I	Interest & Discount (1,835 – 3)		1,832
II	Interest on Investments		8
			1,840
	Schedule 14- other income		
	Commission, exchange and brokerage		12
	Profit on sale of investments		1
	Rent received		2
			15
	Schedule 16- Operating Expenses		
	Printing & stationery		18
	Repair & maintenance		2
	Payment to and provision for employees (salaries, bonus etc.)		80
	Other Operating Expenses		5
			105

10. On the basis of the information given, in respect of hire purchase and leased assets, additional provision shall be made as under**:**

			(₹ in crore)
(a)	Where hire charges are overdue upto 12 months	Nil	-
(b)	Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x (675+1,050)	172.50
(c)	Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 225	90
(d)	Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 21,200	14,840
		Total	15,102.50

11. (a) The Seventh Schedule of SEBI (Mutual funds) Regulations, 1996 states that a mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of Asset Management Company. It also states that a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by an authorised credit rating agency. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of Asset Management Company. Accordingly, if the debts instruments of Y Ltd. are unrated then mutual fund Asset Management Company (AMC) cannot invest more than 10% of its NAV in those instruments.

(b) Statement showing the Movement of Unit Holders' Funds for the year ended 31st March, 2018

	(₹ '000)
Opening balance of net assets	18,00,000
Add: Par value of units issued (12,75,300 × ₹ 100)	1,27,530
Net Income for the year	1,27,500
Transfer from Reserve/Equalisation fund (Refer working note)	23,085
	20,78,115

Less: Par value of units redeemed (11,28,450 × ₹ 100)	(1,12,845)
Closing balance of net assets (as on 31st March, 2018)	19,65,270

Working Note:

Particulars	*Issued*	*Redeemed*
Units	12,75,300	11,28,450
	₹ 000	₹ 000
Par value	1,27,530	1,12,845
Sale proceeds / Redemption value	1,44,750	1,06,980
Profit transferred to Reserve / Equalisation Fund	17,220	5,865
Balance in Reserve / Equalisation Fund (Issued & Redeemed)	23,085	

12.

			₹
a	Profit for equity fund after current cost adjustment		6,88,000
b	Profit (as per Long-term fund approach)		
	Profit for equity fund	6,88,000	
	Add: Interest on Long-term loan	2,16,000	9,04,000
c	Current cost of capital employed (by Equity approach)		41,60,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	41,60,000	
	Add: 12% Long term loan	18,00,000	59,60,000
e	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of Profit as per equity approach = (6,88,000/14) x 100		49,14,286
	Less: Capital employed as per equity approach		(41,60,000)
	Value of Goodwill		7,54,286
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach = (9,04,000 /12.5) x 100		72,32,000
	Less: Capital employed as per Long-term fund approach		(59,60,000)
	Value of Goodwill		12,72,000

13. Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd.as on 31st March, 2017

	Particulars	Note No.	₹ in lakhs
I	**Equity and Liabilities**		
1	**Shareholders' Funds**		
	(a) Share Capital	1	19,000
	(b) Reserves and Surplus	2	5,620
2.	**Minority interest**	3	3,400
3.	**Current Liabilities**		
	(a) Trade payables	4	2,623
	Total		30,643
II	**Assets**		
1	**Non Current Assets**		
	Fixed Assets		
	(i) Tangible Assets	5	17,435
2	**Current Assets**		
	(a) Inventories	6	6,632
	(b) Trade Receivables	7	4,842
	(c) Cash and Cash equivalents	8	1,734
			30,643

Notes to Accounts

			₹ in lakhs
1.	**Share Capital**		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of ₹ 10 each fully paid up)		15,000
	400 lakh Preference Shares of ₹ 10 each fully paid up		4,000
			19,000
2.	**Reserves and Surplus**		
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on ₹ 4500 Lakh Equity Shares)	450	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)	825	

		3,125	
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)	25	
	General Reserve	2,500	2,525
			5,620
3.	**Minority interest**		
	100 Lakh Preference Shares of ₹ 10 fully paid up	1,000	
	150 Lakh Equity Shares of ₹10 each fully paid up	1,500	2,500
	Share in Revenue Profits (Working Note i)	275	
	Share in Capital Profit (working Note ii)	625	900
			3,400
4.	**Trade payables**		
	X Ltd.	1,646	
	Y Ltd.	1,027	
		2,673	
	Less: Mutual owing	50	2,623
5.	**Tangible Assets**		
	Land & Building		
	X Ltd.	3,550	
	Y Ltd	1,510	5,060
	Plant & Machinery		
	X Ltd.	5,275	
	Y Ltd (Working note v)	4,500	9,775
	Furniture & Fixtures		
	X Ltd.	1,945	
	Y Ltd	655	2,600
			17,435
6.	**Inventories**		
	X Ltd.	4,142	
	Y Ltd	2,520	
		6,662	
	Less: Unrealized Profit	(30)	6,632

7.	**Trade Receivables**		
	X Ltd.	3,010	
	Y Ltd	1,882	
		4,892	
	Less: Mutual Owing	50	4,842
8.	**Cash & cash Equivalents**		
	X Ltd.	1,174	
	Y Ltd	560	1,734

Working Notes

(i) Calculation of Revenue Profits

Y's Ltd Profit & Loss Account

	₹ in lakh		**₹ in lakh**
To Equity Dividend		By Balance b/d	650
10 % of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	1,850		1,850

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	4,000
Less Balance as 31st March 2017	3,600
	400
Hence rate of Depreciation = 400/4000 x 100	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd's share- 1100 x 450/600	825
Y Ltd's share = 1100 x150/600	275

(ii) Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50

Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000
Capital Profit	2,500
X Ltd's Share in Capital Profit = 2,500 x 450/600	1,875
Y Ltd's Share in Capital Profit = 2,500 x 150/600	625

(iii) Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = 6,375-6,350	25

(iv) Unrealised Profit

₹ 150 Lakh x 25/125* = 30 lakh

(v) Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	100	900
		4,500

* ₹ 150 lakh considered as cost to Y ltd.

14. As per para 4 of the 'General Instructions for preparation of Statement of Profit and Loss' given in the Schedule III to the Companies Act, 2013, 'other income' does not include operating income. However, rental income arising from leasing of properties is an operating income as it is income from one of the divisions of R Ltd. There is a separate head for operating income i.e. 'Revenue from Operations'. Therefore, classification of rent income as 'Other income' in the Statement of Profit and Loss will not be correct. It would, infact, be shown under the heading 'Revenue from Operations' only as per the Guidance Note on Schedule III to the Companies Act, 2013.

15. (a)

	₹ in crore
Cost of construction of bridge incurred upto 31.3.18	4.00
Add: Estimated future cost	6.00

Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$= (4/10)\times 100 = 40\%$

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=₹ 12.60 crore x 40% = ₹ 5.04 crore

Profit for the year ended 31st March, 2018 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of ₹ 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

16. (a) As per AS 18 'Related Party Disclosures', Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprise that have a member of key management in common with the reporting enterprise.

In the given case, Sun Ltd. and Moon Ltd are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

Hence the contention of Chief Accountant of Sun Ltd is wrong.

(b) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is ₹ 10, 00,000 and the net present value of minimum lease payments is ₹ 10,01,497 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at fair value of ₹ 10,00,000.

Calculation of finance charges for each year

Year	*Finance charge (₹)*	*Payment (₹)*	*Reduction in outstanding liability (₹)*	*Outstanding liability (₹)*
1st year beginning	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366*

* *The difference between this figure and guaranteed residual value is due to rounding off.*

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor ₹ 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	₹ 9,79 ,405
Present value of guaranteed residual value ₹ 40,000 x (0.5523)	₹ 22,092
	₹ 10,01,497

17. Computation of Basic Earnings per Share

		Year 2015-16 (₹)	*Year 2016-17 (₹)*
(i)	EPS for the year 2015-16 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year ₹ 35,00,000/ 15,00,000 shares	2.33	
(ii)	EPS for the year 2015-16 restated for the right issue ₹ 35,00,000/15,00,0000 shares x 1.08	2.16	
(iii)	EPS for the year 2016-17 (including effect of right issue) ₹ 45,00,000 / [(15,00,000x1.08 x 4/12) + (20,00,000x8/12)]		2.40

Working Notes:

1. **Computation of theoretical ex-rights fair value per share =**

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

[(₹ 35 x15,00,000) + (₹ 25 x 5,00,000)] / (15,00,000 + 5,00,000) = ₹ 32.5

2. **Computation of adjustment factor**

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

= ₹ 35 /32.50 = 1.08 (approx.)

18. Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

(i) Gradual or evolutionary phasing out of a product line or class of service;

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

19 Desire Limited amortised ₹ 20,00,000 per annum for the first two years i.e. ₹ 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	*Net cash flows ₹*	*Amortization Ratio*	*Amortization Amount ₹*
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.

20. As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹ 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."