(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)

DATE: 06.09.2019 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER : ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.
Question No. 1 is compulsory.
Candidates are also required to answer any Four questions from the remaining Five Questions.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then all answers shall be valued and best four will be considered.
Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Answer 1:

(a) Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or signific ant influence over the enterprise, and relatives of any such individual". **($2^{1/2}$ M)**

In the above example, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel. **($2^{1/2}$ M)**

Answer:

(b) Computation of basic earnings per share
Net profit for the current year / Weighted average number of equity shares outstanding during the year **(1 M)**

Rs. 75,00,000 / 10,00,000 = Rs. 7.50 per share **(1/2 M)**

Computation of diluted earnings per share $\dfrac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$ **(1 M)**

Adjusted net profit for the current year

	Rs.
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of Rs. 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

(1 M)

Number of equity shares resulting from conversion of debentures
= 1,10,000 Equity shares (given in the question) **(1/2 M)**

Weighted average number of equity shares used to compute diluted earnings per share **(1/2 M)**
= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share
= 80,60,000/ 11,10,000 = Rs. 7.26 per share **(1/2 M)**

Answer:

(c) 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. **(1M)**

Case (i)
The sale is complete but delivery has been postponed at buyer"s request. M/s Paper Products Ltd. should recognize the entire sale of Rs. 60,000 for the year ended 31st March, 2015. **(½M)**

Case (ii)
20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,20,000 (80% of Rs. 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party. **(1M)**

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 Rs. 1,20,000 as the time period for rejecting the goods had expired. **(1M)**

Case (iv)
Trade discounts given should be deducted in determining revenue. Thus Rs. 39,000 should be deducted from the amount of turnover of Rs. 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be Rs. 7,41,000. **(1M)**

Thus total revenue amounting Rs. 10,41,000 (60,000 + 1,20,000 + 1,20,000 + 7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd. **(½M)**

Answer:

(d) (i) Determination of nature of lease

Fair value of asset Rs. 7,00,000

Unguaranteed residual value Rs. 70,000

Present value of residual value at the end of 4th Year = Rs. 70,000 × 0.683
= Rs. 47,810 **(½M)**

Present value of lease payment recoverable = Rs. 7,00,000 - Rs. 47,810
= Rs. 6,52,190 **(1M)**

The percentage of present value of lease payment to fair value of the asset is
= (Rs. 6,52,190/Rs. 7,00,000) × 100
= 93.17% **(½M)**

Since it substantially covers the major portion of lease payments and life of the asset, the lease constitutes a finance lease. **(½M)**

(ii) • Calculation of Unearned finance income
Annual lease payment = Rs. 6,52,190 / 3.169
= Rs. 2,05,803 (approx.) **(½M)**

• Gross investment in the lease
= Total minimum lease payments + unguaranteed residual value.
= (Rs. 2,05,803 x 4) + Rs. 70000
= Rs. 8,23,212 + Rs. 70,000 = Rs. 8,93,212 **(1M)**

• Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.
= Rs. 8,93,212 – Rs. 7,00,000
(Rs. 6,52,190 + Rs. 47,810)
= Rs. 1,93,212 **(1M)**

Answer 2:

(a) (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**

(3 M)

(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 @ Rs. 30 from underwriter (in Rs.)	6,96,000	2,40,000	1,20,000	10,56,000
Less: Underwriting Commission payable @ 5% of Rs. 30 (in Rs.)	(1,80,000)	(75,000)	(45,000)	(3,00,000)
Net amount receivable (in Rs.)	**5,16,000**	**1,65,000**	**75,000**	**7,56,000**

(2 M)

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

			Rs.	**Rs.**
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)			

(1 M)

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

Answer:

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

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

(3/4M)

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

Particulars	Rs.
Paid up capital (Rs.)	12,50,000
Free reserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (Rs.)	31,25,000
25% of Shareholders fund (Rs.)	7,81,250
Buy back price per share	Rs, 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy back	25,000

(1M)

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

	Particulars	Rs.
(a)	Loan funds (Rs.) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	22,62,500
(c)	Present equity/shareholders fund (Rs.)	31,25,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ Rs. 20 per share	28,750 shares
(g)	Actual Buy Back Proposed	25,000 Shares

(1M)

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

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

($1^{1/2}$ M)

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.
However, company wants to buy-back only 25,000 equity shares @ Rs. 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

	Particulars		Amount Rs.	Amount Rs.	
(a)	Equity shares buy-back account	Dr.	5,00,000		
	To Bank account			5,00,000	(3/4M)
	(Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)				
(b)	Equity share capital account	Dr.	2,50,000		
	Securities premium account	Dr.	2,50,000		(3/4M)
	To Equity shares buy-back account			5,00,000	
	(Being cancellation of shares bought back)				
(c)	Revenue reserve account	Dr.	2,50,000		
	To Capital redemption reserve account			2,50,000	
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)				(3/4M)

Balance Sheet of M/s. Competent Ltd.
as on 31st March, 20X1

		Particulars	Note No.	Amount (Rs.)
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	(½M) 10,00,000
		Reserves and Surplus	2	(½M} 16,25,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	(½M) 28,75,000
3		Current liabilities		(½M) 16,50,000
		Total		71,50,000
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		(½M) 46,50,000
2		Current assets (30,00,000-5,00,000)		(½M) 25,00,000
		Total		71,50,000

Notes to accounts

		Rs.	Rs.	
1	Share Capital			
	Equity share capital			
	1,00,000 Equity shares of Rs. 10 each		10,00,000	(½M)
2.	Reserves and Surplus			
	Profit and Loss A/c	1,25,000		
	Revenue reserves 15,00,000			
	Less: Transfer to CRR (2,50,000)	12,50,000		

	Securities premium 2,50,000 Less: Utilisation for share buy-back (2,50,000) Capital Redemption Reserves	2,50,000	16,25,000	**(½M)**
	Long-term borrowings Secured 12% Debentures	18,75,000		
	Unsecured loans	10,00,000	28,75,000	**(½M)**

Working Note :

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

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

Then

$(31{,}25{,}000 - x) - 22{,}62{,}500 = y$ (1)

$\left(\frac{Y}{20}\times 10\right) = x$ Or $2x = y$ (2)

by solving the above equation, we get

x = Rs. 2,87,500

y = Rs. 5,75,000

(1M)

Answer 3:

(a) **Journal Entries in the Books of Z Ltd.**

			Dr. Rs.	**Cr. Rs.**	
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000		**(1/2M)**
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000	
	To Reconstruction A/c			25,00,000	
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)				
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000		**(1/2M)**
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000	
	To Reconstruction A/c			10,00,000	
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)				
(iii)	10% Secured Debentures A/c	Dr.	9,60,000		**(1/2M)**
	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 Rs. 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 Trade Payables Interest on debentures outstanding A/c Bank A/c To 12% debentures A/c To Reconstruction A/c (Being Rs. 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.)	Dr. Dr. Dr. Dr.	6,40,000 60,000 64,000 60,000	 4,42,000 3,82,000	**(1/2M)**
(v)	Trade payables A/c To Reconstruction A/c (Being remaining trade payables sacrificed 50% of their claim.)	Dr.	1,70,000	 1,70,000	**(1/2M)**
(vi)	Directors' Loan A/c To Equity Share Capital (Rs. 5) A/c To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of Rs. 5 each as per scheme of reconstruction.)	Dr.	1,00,000	 40,000 60,000	**(1/2M)**
(vii)	Reconstruction A/c To Bank A/c (Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)	Dr.	15,000	 15,000	**(1/2M)**
(viii)	Bank A/c To Reconstruction A/c (Being refund of fees by directors credited to reconstruction A/c)	Dr.	1,00,000	 1,00,000	**(1/2M)**
(ix)	Reconstruction A/c To Bank A/c (Being payment of reconstruction expenses)	Dr.	15,000	 15,000	**(1/2M)**
(x)	Provision for Tax A/c To Bank A/c To Reconstruction A/c (Being payment of tax liability in full settlement against provision for tax)	Dr.	1,00,000	 75,000 25,000	**(1/2M)**
(xi)	Land and Building A/c To Reconstruction A/c (Being appreciation in value of Land & Building recorded)	Dr.	2,00,000	 2,00,000	**(1/2M)**
(xii)	Reconstruction A/c To Goodwill A/c To Patent A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Trade Investment A/c To Inventory A/c To Trade Receivables A/c	Dr.	42,10,000	 10,00,000 5,00,000 14,60,000 1,00,000 6,50,000 1,00,000 50,000 2,50,000 1,00,000	**(2 M)**

	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction)			
(xiii)	Reconstruction A/c Dr. To Capital Reserve A/c (Being balance of reconstruction A/c transfer to Capital Reserve)	7,75,000	7,75,000	(1/4 M)

Bank Account

	Rs.		Rs.
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

(8 item x 1/4 M)

Reconstruction Account

	Rs.		Rs.
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 Capital A/c	**10,00,000**
To Patent	**5,00,000**		
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

(21 item x 1/4 M)

Answer:
(b)

Purchase Consideration:	**Rs.**
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**

(3 M)

To be satisfied as under:		
(i) Preference Shareholders of Beta Ltd.	2,80,000	(1 M)
Add: 10% Premium	28,000	
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	**3,08,000**	
(ii) 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**	(1 M)
Total	14,84,000	

Answer 4:

(a)

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	
			Rs.	
1.	Premium earned (Net)	1	**7,00,000**	{1 M}
	Total (A)		7,00,000	
1.	Claims incurred (Net)	2	**8,00,000**	{1 M}
2.	Commission	3	**50,000**	{1 M}
3.	Operating Expenses related to insurance business	4	**3,00,000**	{1 M}
	Total (B)		11,50,000	
	Operating Profit/(Loss) from Fire Insurance Business [C = (A – B)]		**(4,50,000)**	{1 M}

Schedule 1

Premium earned (Net)

	Rs.	
Premium received from direct business written	15,00,000	{1 1/2 M}
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)

	Rs.	
Claims paid – Direct	7,00,000	{1 1/2 M}
Add: Claims outstanding on 31.3.20X2	1,00,000	
Total claims incurred	8,00,000	

Schedule 3

Commission

Commission paid	50,000	{1 M}
Net commission	50,000	

Schedule 4
Operating expenses related to insurance business

	Rs.
Expenses of Management	3,00,000

{1 M}

Answer:
(b) Provision required to be made as on 31.03.20X1

Outstanding balance	Rs. 4.00 lakhs	
Less: Value of security held (Secured Portion)	(Rs. 1.50 lakhs)	
Unrealised balance	**Rs. 2.50 lakhs (1M)**	
Less: ECGC Cover (50% of unrealizable balance)	(Rs. 1.25 lakhs)	
Net unsecured balance	**Rs. 1.25 lakhs (1M)**	
Provision for unsecured portion of advance	**Rs. 1.25 lakhs (@100% of unsecured portion)**	**(1M)**
Provision for secured portion of advance	**Rs. 1.50 lakhs (@100% of secured portion as advance has remained doubtful for over 3 years)**	**(1M)**
Total provision to be made	**Rs. 2.75 lakhs**	**(1M)**

Answer:
(c) Investment in Debentures A/c

		(Rs.) Lakh			**(Rs.) Lakh**
June 1, 2016	To Bank	**10.70**	June 1, 2016	By Interest Recoverable (Note 1)	**0.20**
Nov 1, 2016	To Bank	**5.45**	Nov 1, 2016	By Interest Recoverable(Note 2)	**0.05**
Feb. 28, 2017	To Interest Recoverable (Note 3)	**0.30**	Feb 28, 2017	By Bank	**6.78**
Feb. 28, 2017	To Profit on disposal (Note 4)	**0.12**	Mar. 31, 2017	By Balance c/d	**9.54**
		16.57			16.57

(8 Item × ½ Mark)

Working Notes:
Note 1: 10,000 x 100 x 12/100 x 2/12 = Rs. 0.20 Lakhs **(¼M)**
Note 2: 5,000 x 100 x 12/100 x 1/12 = Rs. 0.05 Lakhs **(¼M)**
Note 3: 6,000 x 100 x 12/100 x 5/12 = Rs. 0.30 Lakhs **(¼M)**

Note 4: Cost of investments (per unit) = [(10,70,000-20,000)+(5,45,000 –5,000)]/15,000 units
= [10,50,000+ 5,40,000]/15,000 = Rs. 106
Cost of investments sold = Rs. 106 x 6,000 = Rs. 6,36,000
Sale proceeds = Rs. 6,78,000 - Rs. 30,000(interest)
= Rs. 6,48,000
Profit = Rs. 6,48,000 - Rs. 6,36,000 = Rs. 12,000 **(¼M)**

Answer 5:

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd. as on 31st December, 2016

Particulars	Note No.	(Rs.)
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	**5,00,000**
(b) Reserves and Surplus	2	**3,08,800**
(2) **Minority Interest (W.N 5)**		**83,600**
(3) **Current Liabilities**		
(a) Trade Payables	3	**64,500**
(b) Short term borrowings	4	**80,000**
Total		**10,36,900**
II. **Assets**		
(1) **Non-current assets**		
Fixed assets		
(i) Tangible assets	5	**7,41,000**
(ii) Intangible assets	6	**17,200**
(2) **Current assets**		
(a) Inventories	7	**1,56,400**
(b) Trade receivables	8	**99,800**
(c) Cash & Cash equivalents (Cash)	9	**22,500**
Total		**10,36,900**

(12 item x 1/2 M = 6 M)

Notes to Accounts

				Rs.	
1.	**Share Capital**				
	5,000 shares of Rs. 100 each			**5,00,000**	**(1/2 M)**
2.	**Reserves and Surplus**				
	Reserves		2,40,000		
	Profit & loss (W.N.8)		68,800	**3,08,800**	**(1/2 M)**
3.	**Trade Payables**				
	A Ltd.	47,100			
	B Ltd.	17,400		**64,500**	**(1/2 M)**
4.	**Short term borrowings**				
	Bank overdraft			**80,000**	**(1/2 M)**
5.	**Tangible Assets**				
	Land and building (1,50,000 + 1,80,000)		3,30,000		
	Plant & Machinery (W.N 7)		4,11,000	**7,41,000**	**(1/2 M)**
6.	**Intangible assets**				
	Goodwill (W.N 6)			**17,200**	**(1/2 M)**
7.	**Inventories**				
	A Ltd.		1,20,000		
	B Ltd.		36,400	**1,56,400**	**(1/2 M)**
8	**Trade Receivables**				
	A Ltd.	59,800			
	B Ltd.	40,000		**99,800**	**(1/2 M)**
9	**Cash & Cash equivalents**				
	Cash				
	A Ltd.		14,500		
	B Ltd.		8,000	**22,500**	**(1/2 M)**

Share holding Pattern

Total Shares of B Ltd	2,000 shares	(1/2 M)
Shares held by A Ltd	1,600 shares i.e. 80 %	
Minority Shareholding	400 shares i.e. 20 %	

Working Notes:

1. The dividend @ 10% on 1,600 shares - Rs. 16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz. **(3/4 M)**

    Profit & Loss Account Dr. Rs. 16,000
    To Investment Rs. 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at Rs. 1,42,500 on 1st July, 2016, considering only six months' depreciation on Rs. 1,50,000 total depreciation being Rs. 15,000. The value put on the assets being Rs. 1,80,000, there is an appreciation to the extent of Rs. 37,500. **(3/4 M)**

3. **Capital profits of B Ltd.:** **($1^{1/2}$ M)**

	Rs.	Rs.
Reserve on 1st January, 2016		1,00,000
Profit & Loss Account Balance on 1st January, 2016	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 2016: Total Rs. 82,000 less Rs. 10,000 i.e. Rs. 72,000; upto 1st July, 2016		36,000
Appreciation in value of Plant & Machinery		37,500
		1,83,500
Less: 20% due to outsiders		(36,700)
Holding company's share		1,46,800

4. **Revenue profits of B Ltd.:** **(1 M)**

Profit after 1st July, 2016 [82,000 – 10,000] x ½	36,000
Less: 10% depreciation on Rs. 1,80,000 for 6 months less depreciation already Charged for 2nd half year on 1,50,000 (9,000 – 7,500)	(1,500)
	34,500
Less: 1/5 due to outsiders	(6,900)
Share of A Ltd.	27,600

5. **Minority interest:** **(1 M)**

Par value of 400 shares	40,000
Add: 1/5 Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

6. **Cost of Control:** **(2 M)**

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits – share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		17,200

7. **Value of plant & Machinery:**

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 2016 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2nd half charged on pre- revalued value	7,500	
Less: Depreciation on Rs.1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

(1 M)

8. Profit & Loss Account (Consolidated):

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	(16,000)	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

(1 M)

Answer 6:

(a) 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 Rs. 120 Lakhs and Preference share capital is Rs. 60 Lakhs & (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. **(1 M)**

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**

(8 item x 1/2 M = 4 M)

Answer:

(b) Amalgamation in the nature of merger is an amalgamation, as per para 3(e) of AS-14, which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company. **1M**

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation. **1M**

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares. **1M**

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company. **1M**

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies. For example, if transferor company is following straight line method of depreciation, the book value of the assets of the transferor company will be revised by applying the written down method of depreciation. **1M**

Answer:

(c) Section 326 of the Companies Act, 2013 is talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a paripassu change in favor of the workman to the extent of their portion. **1M**

Workman's Share to Secured Asset = $\frac{\text{Amount Realied * Workman's Dues}}{\text{Workman's Dues + Secured Loan}}$ **1M**

Workman's Share to Secured Asset = $\frac{4,00,00,000 * 1,25,00,000}{1,25,00,000 + 5,00,00,000}$

$4,00,00,000 * \frac{1}{5}$ **1M**

Workman's Share to Secured Assets = 80,00,000

Amount available to secured creditor is Rs.400 Lakhs – 80 Lakhs = 320 Lakhs **1M**

Hence, no amount is available for payment of government dues and unsecured creditors. **1M**

Answer:

(d)

			Rs.
(a)	Profit for equity fund after current cost adjustment		**1,72,000**
(b)	Profit (as per Long-term fund approach)		
	Profit for equity fund	1,72,000	
	Add: Interest on Long-term loan (4,50,000 x 10%)	45,000	**2,17,000**
(c)	Current cost of capital employed (by Equity approach)		**10,40,000**
(d)	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	10,40,000	
	Add: 10% Long term loan	4,50,000	**14,90,000**
(e)	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of Profit as per equity approach = $\frac{1,72,000}{15.60} x\ 100$		**11,02,564**

(8 item x 1/2 M = 4 M)

		Less: Capital employed as per equity approach		(10,40,000)
		Value of Goodwill		**62,564**
	(B)	By Long-Term Fund Approach Capitalized value of Profit as per Long-term fund approach = $\frac{2,17,000}{13.5} \times 100$		**16,07,407**
		Less: Capital employed as per Long-term fund approach		(14,90,000)
		Value of Goodwill		**1,17,407**

Leverage effect on Goodwill:

Adverse Leverage effect on goodwill is Rs. 54,843 (i.e. Rs. 1,17,407 – Rs. 62,564). **(1 M)**

Answer:

(e) Calculation of provision required on advances as on 31st March, 2017:

	Amount Rs. in lakhs	**Percentage of provision**	**Provision Rs. in lakhs**
Standard assets	53,600	.25	134.00
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts			
- up to one year	640	20	128.00
- one year to three years	180	30	54.00
- more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			904.00

(5 M)

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