(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 17.08.2019 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) Following will be the treatment in the given cases:

(a) When sales price of Rs. 50 lakhs is equal to fair value, Reliance Ltd. should immediately recognise the profit of Rs. 10 lakhs (i.e. 50 – 40) in its books. **{3/4 M}**

(b) When fair value is Rs. 60 lakhs then also profit of Rs. 10 lakhs should be immediately recognised by Reliance Ltd. **{3/4 M}**

(c) When fair value of leased machinery is Rs. 45 lakhs & sales price is Rs. 38 lakhs, then loss of Rs. 2 lakhs (40 – 38) to be immediately recognised by Reliance Ltd. in its books provided loss is not compensated by future lease payment. **{1.25 M}**

(d) When fair value is Rs. 40 lakhs & sales price is Rs. 50 lakhs then, profit of Rs. 10 lakhs is to be deferred and amortised over the lease period. **{3/4 M}**

(e) When fair value is Rs. 46 lakhs & sales price is Rs. 50 lakhs, profit of Rs. 6 lakhs (46-40) to be immediately recognised in its books and balance profit of Rs.4 lakhs (50-46) is to be amortised/deferred over lease period. **{3/4 M}**

(f) When fair value is Rs. 35 lakhs & sales price is Rs. 39 lakhs, then the loss of Rs. 5 lakhs (40-35) to be immediately recognised by Reliance Ltd. in its books and profit of Rs. 4 lakhs (39-35) should be amortised/deferred over lease period. **{3/4 M}**

Answer:

(b) As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a single plan, is:
  (1) disposing of substantially in its entirety,
  (2) disposing of piecemeal, or
  (3) terminating through abandonment; and **{1 M}**

(ii) that represents a separate major line of business or geographical area of operations; and **{1/2 M}**

(iii) that can be distinguished operationally and for financial reporting purposes. **{1/2 M}**

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business; **{2 M}**

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. **{1 M}**

Answer:

(c) (i) Since the company is not appealing against the addition of Rs. 0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 2017. The amount paid under protest can be kept under the heading 'Loans & Advances' and disclosed along with the contingent liability of Rs. 2.10 crore. **{$2^{1/2}$ M}**

(ii) The arrears for the period from June, 2016 to March, 2017 are required to be provided for in the accounts of the company for the year ended on 31st March, 2017. **{$2^{1/2}$ M}**

Answer

(d) In the given case, Milk Ltd. concurrently agreed to repurchase the same goods from Curd Ltd. on 1st Feb., 2017. Also the re-selling price is pre-determined and covers purchasing and holding costs of Curd Ltd. Hence, the transaction between Milk Ltd. and Curd Ltd. on 1st Feb., 2017 should be accounted for as financing rather than sale. The resulting cash flow of Rs. 9.60 lakhs received by Milk Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition". **{2 M}**

Journal Entries in the books of Milk Ltd.

		(Rs. in lakhs)		
01.02.2017	Bank Account Dr.	9.60		**{1 M}**
	To Advance from Curd Ltd		9.60	
	(Being advance received from Curd Ltd amounting [Rs. 8 lakhs + 20% of Rs. 8 lakhs= 9.60 lakhs] under sale and re-purchase agreement)			
31.03.2017	Financing Charges Account Dr.	0.40		**{1 M}**
	To Curd Ltd.		0.40	
	(Financing charges for 2 months at Rs. 1.20 lakhs [10.80 – 9.60] i.e. 1.2 lakhs x 2/6)			
31.03.2017	Profit and Loss Account Dr.	0.40		**{1 M}**
	To Financing Charges Account		0.40	
	(Being amount of finance charges transferred to P& L Account)			

Answer 2:

(a)

Canon Limited Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realised -			By Liquidation expenses		27,250
Bank		75,000	By Preferential creditors		38,000
Other assets:			By Liquidator's Remuneration (W.N.1)		36,750
Land etc.	3,00,000		By Debenture holders:		
Machinery etc.	5,00,000		Debentures	2,50,000	
Patents	75,000		Interest accrued	37,500	
Stock	1,50,000	{1 M}	Interest 1-1-17/30-6-17	18,750	**3,06,250** {1/2 M}
Trade receivables	2,00,000	**12,25,000**	By Unsecured creditors		2,80,750
To Call on equity shareholders (7,500 × Rs. 2.65) (1)		**19,875** {1 M}	By Preferential shareholders :		
			Preference capital	5,00,000	
			Arrear of Dividend	1,00,000	**6,00,000** {1/2 M}
					12,89,000
			By Equity shareholders - Rs. 12.35 on 2,500 shares		30,875
		13,19,875			13,19,875

Working Notes:

(1) Liquidator's remuneration 12,25,000 × 3/100 =Rs. 36,750 **{1 M}**

(2) As the company is solvent, interest on the debentures will have to be paid for the period 01-01-2017 to 30-06-2017

$$2,50,000 \text{x} \frac{15}{100} \text{ x } \frac{1}{2} = \text{Rs.}18,750 \Big\} \textbf{\{1 M\}}$$

(3)	Total equity capital - paid up	Rs. 6,37,500	
	Less : Balance available after payment to unsecured and preference shares (13,00,000 — 12,89,000)	Rs. (11,000)	
	Loss to be born by 10,000 equity shares	Rs. 6,26,500	**{1 M}**
	Loss per share	Rs. 62.65	
	Hence, amount of call on Rs. 60 paid share	Rs. 2.65	**{1 M}**
	Refund to share on Rs. 75 paid	Rs. 12.35	**{1 M}**

Answer

(b) Statement showing liability of underwriters-

	Particulars	Basis	White	Black	
A	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000	**{1/2 M}**
B	Less: Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)	**{1/2 M}**
C	Balance [A-B]		-	4,80,000	**{1/2 M}**
D	Less: Unmarked Applications	1:1	(1,20,000)	(1,20,000)	**{1/2 M}**
E	Balance [C-D]		(1,20,000)	3,60,000	**{1/2 M}**
F	Less: Firm Underwriting		(60,000)	(60,000)	**{1/2 M}**
G	Balance		(1,80,000)	3,00,000	**{1/2 M}**
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)	**{1/2 M}**
I	Net Liability		-	1,20,000	**{1/2 M}**
J	Add: Firm Underwriting		60,000	60,000	**{1/2 M}**
K	Total Liability [No. Shares]		60,000	1,80,000	**{1/2 M}**

Journal Entries

2017 Jan 31	Bank A/c To Equity Share Application A/c (Being application money received @ Rs. 2.50 per share on 28,80,000 shares)	Dr.	72,00,000	72,00,000	**{1/2 M}**
March 31	Equity Share Application A/c To Equity Share Capital A/c (Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)	Dr.	72,00,000	72,00,000	**{1/2 M}**
March 31	Equity Share Allotment A/c (28,80,000 x Rs. 3) To Equity Share Capital A/c (28,80,000x Rs. 2.5) To Securities Premium A/c (28,80,000 x Rs. 0.5) (Being allotment money due on 28,80,000 shares allotted to public)	Dr.	86,40,000	72,00,000 14,40,000	**{1/2 M}**
	Black (1,20,000 x Rs. 5.5) To Equity Share Capital A/c (1,20,000 x Rs. 5) To Securities Premium A/c	Dr.	6,60,000	6,00,000 60,000	**{1 M}**

	(1,20,000 x Rs. 0.5) (Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)				
March 31	Bank A/c To Equity Share Allotment A/c [(28,80,000 – 6,000) x Rs. 3] To Black (1,20,000 x Rs. 5.5) (Being the receipt of money due on allotment except from the allottee for 6,000 shares)	Dr.	92,82,000	86,22,000 6,60,000	{1 M}
March 31	Underwriting Commission A/c To Black A/c To White A/c (Being commission @ 4 % on issue price of Rs. 10.50 for Rs.30 lakh shares payable to underwriters)	Dr.	12,60,000	6,30,000 6,30,000	{1/2 M}
March 31	Black A/c White A/c To Bank A/c (Being commission paid to underwriters)		6,30,000 6,30,000	12,60,000	{1/2 M}
June 30	Equity Share Capital A/c (6,000 x 5) Securities Premium A/c (6,000 x 0.5) To Share Allotment A/c (6,000 x 3) To Forfeited Shares A/c (6,000 x 2.5) (Being 6,000 shares forfeited vide Board's Resolution)	Dr. Dr.	30,000 3,000	18,000 15,000	{1 M}
June 30	Bank A/c (6,000 x Rs. 4) Forfeited Shares A/c To Equity Share Capital A/c (6,000 x Rs. 5) (Being the reissue of 6,000 shares @ Rs. 4 as Rs. 5 paid up at par)	Dr. Dr.	24,000 6,000	30,000	{1/2 M}
	Forfeited Shares A/c (15,000 – 6,000) To Capital Reserve A/c (Being the transfer of profit on reissue)	Dr.	9,000	9,000	{1/2 M}

Answer 3:

(a) **Calculation of purchase consideration**

One share of Pepsi Co. Ltd. will be issued in exchange of every share of Coca Cola Ltd. (i.e. 20,000 equity shares of Pepsi Co. Ltd. will be issued against 20,000 equity shares of Coca Cola Ltd.)	20,000 shares	{1 M}

Journal Entries in the books of Pepsi Co. Ltd.

Date		(Rs. in thousands)		
20X1		**Dr.**	**Cr.**	
March, 31	Loan from bank A/c Dr. To Capital reduction A/c (Being loan from bank waived off to the extent of Rs. 60 thousand)	60	60	{1/2 M}

	Equity share capital A/c (Rs. 100) To Equity share capital A/c (Rs. 10) To Capital reduction A/c (Being equity shares of Rs. 100 each reduced to Rs. 10 each)	Dr.	1,000	 100 900	{1/2 M}
	Equity share capital A/c (Rs. 10) To Equity share capital A/c (Rs. 100 each) (Being 10 equity shares of Rs. 10 each consolidated to one share of Rs. 100 each)	Dr.	100	 100	{1/2 M}
	Capital reduction A/c To Profit and loss A/c To Capital reserve A/c (Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)	Dr.	960	 800 160	{1/2 M}
	Business purchase A/c To Liquidator of Coca Cola Ltd. (Being purchase of business of Coca Cola Ltd.)	Dr.	2,000	 2,000	{1/2 M}
	Fixed asset A/c Investment A/c Trade receivables A/c Cash at bank A/c To Trade payables A/c To Loans from bank A/c To 10% Debentures A/c To Business purchase A/c To Reserves A/c (Being assets, liabilities and reserves taken over under pooling of interest method)	Dr. Dr. Dr. Dr.	2,700 700 400 250	 300 250 500 2,000 1,000	{1/2 M}
	Liquidator of Coca Cola Ltd. A/c To Equity share capital A/c (Being payment made to liquidators of Coca Cola Ltd. by allotment of 20,000 new equity shares)	Dr.	2,000	 2,000	{1/2 M}
	Trade payables A/c To Trade receivables A/c (Being mutual owing cancelled)	Dr.	100	 100	{1/2 M}

Balance Sheet of Pepsi Co. Ltd. after merger as on 31.3.20X1

		Particulars	Notes	Rs. in '000
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	2,100
	b	Reserves and Surplus	2	1,160
2		Non-current liabilities		
	a	Long term borrowings	3	1,140
3		Current liabilities		
	a	Trade payables		500
	b	Short term borrowings	4	50
			Total	4,950
		Assets		
1		Non-current assets		
	a	Fixed assets		

{2 M}

		Tangible assets		3,550
	b	Non-current investments		700
2		Current assets		
	a	Trade receivables		450
	b	Cash and cash equivalents		250
			Total	4,950

Notes to accounts

			Rs. in '000
1	Share Capital		
	21,000, Equity shares of Rs. 100 each fully paid (Out of the above, 20,000 shares have been issued for consideration other than cash)		2,100 {1 M}
2	Reserves and Surplus		
	Capital reserve	160	
	General reserve	1,000	{1 M}
	Total		1,160
3	Long Term Borrowings		
	10% Debentures	500	{1 M}
	Loan from Bank (250+450-60)	640	1,140
4	Short term borrowings		
	Bank overdraft		250

Answer:
(b)

In the books of Rebuilt Ltd.
Journal Entries

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Equity share capital A/c (Rs. 50)	Dr.	7,50,000	
	To Equity share capital A/c (Rs. 2.50)			37,500
	To Capital reduction A/c			7,12,500 {1 M}
	(Being equity capital reduced to nominal value of Rs. 2.50 each)			
2.	Bank A/c	Dr.	1,12,500	
	To Equity share capital			1,12,500 {1 M}
	(Being 3 right shares against each share was issued and subscribed)			
3.	7% Preference share capital A/c (Rs. 50)	Dr.	6,00,000	
	Capital reduction A/c	Dr.	60,000	
	To 5% Preference share capital (Rs. 10)			4,80,000
	To equity share capital (Rs. 50)			1,80,000 {2 M}
	(Being 7% preference shares of Rs. 50 each converted to 5% preference shares of Rs. 10 each and also given to them 6 equity shares for every share held)			
4.	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000 {1 M}
	To Equity share capital A/c			30,000
	(Being loan to the extent of Rs. 1,50,000 converted into share capital)			
5.	Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000 {1 M}
	(Being shares subscribed by the directors)			

6.	Equity share application money A/c To Equity share capital A/c (Being application money transferred to capital A/c)	Dr.	1,00,000	 1,00,000	{1 M}
7.	Loan A/c To Bank A/c (Being loan repaid)	Dr.	2,00,000	 2,00,000	{1 M}
8.	Capital reduction A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal.fig.) (Being losses and assets written off to the extent required)	Dr.	6,52,500	 4,51,000 35,000 1,66,500	{2 M}

Answer 4:

Consolidated Balance Sheet of Japan Sony Co. Ltd. and its Subsidiary Sony India Ltd. as at 31st March, 2017

	Particulars	Note No.	(Rs.)
I.	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share Capital		6,00,000
	(b) Reserves and Surplus	1	3,44,600
	(2) Minority Interest (W.N.5)		48,150
	(3) Current Liabilities		
	(a) Trade Payables	2	2,07,000
	Total		11,99,750
II.	**Assets**		
	(1) Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	3	5,97,750
	(ii) Intangible assets	4	12,000
	(b) Other non- current assets	5	5,90,000
	Total		11,99,750

{3 M}

Notes to Accounts

				Rs.	
1.	**Reserves and Surplus**				
	Reserves		2,00,000		
	Add: 4/5th share of Sony India Ltd.'s post-acquisition reserves (W.N.3)		40,000	2,40,000	{1 M}
	Profit and Loss Account		1,00,000		
	Add: 4/5th share of Sony India Ltd.'s post-acquisition profits (W.N.4)		4,600	1,04,600	
				3,44,600	
2.	**Trade Payables**				
	Japan Sony Co. Ltd.		1,50,000		{1 M}
	Sony India Ltd.		57,000	2,07,000	
3.	**Tangible Assets**				
	Machinery				
	Japan Sony Co. Ltd.		3,00,000		
	Sony India Ltd.	1,00,000			{1 M}
	Add: Appreciation	50,000			
		1,50,000			
	Less: Depreciation	(15,000)	1,35,000		

	Furniture				
	Japan Sony Co. Ltd.		1,50,000		
	Sony India Ltd.	20,000			
	Less: Decrease in value	(5,000)			
		15,000			
	Less: Depreciation	(2,250)	12,750	5,97,750	
4.	**Intangible assets**				
	Goodwill [WN 6]			12,000	{1 M}
5.	**Other non-current assets**				
	Japan Sony Co. Ltd.		4,40,000		
	Sony India Ltd.		1,50,000	5,90,000	{1 M}

Working Notes:

1.	**Pre-acquisition profits and reserves of Sony India Ltd.**	**Rs.**	
	Reserves	25,000	
	Profit and Loss Account	15,000	
		40,000	{2 M}
	Japan Sony Co. Ltd.'s = 4/5 × 40,000	32,000	
	Minority Interest= 1/5 × 40,000	8,000	
2.	**Profit on revaluation of assets of Sony India Ltd.**		
	Profit on Machinery Rs. (1,50,000 – 1,00,000)	50,000	
	Less: Loss on Furniture Rs.(20,000 – 15,000)	5,000	
	Net Profit on revaluation	45,000	{2 M}
	Japan Sony Co. Ltd.'s share 4/5 × 45,000	36,000	
	Minority Interest 1/5 × 45,000	9,000	
3.	**Post-acquisition reserves of Sony India Ltd.**		
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = Rs. 75,000 – 25,000)	50,000	{2 M}
	Japan Sony Co. Ltd.'s share 4/5 × 50,000	40,000	
	Minority interest 1/5 × 50,000	10,000	
4.	**Post -acquisition profits of Sony India Ltd.**		
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 25,000 – 15,000)	10,000	
	Add: Excess depreciation charged on furniture @ 15% on Rs. 5,000 i.e. (20,000 – 15,000)	750	
		10,750	{2 M}
	Less: Under depreciation on machinery @ 10% on Rs. 50,000 i.e. (1,50,000 – 1,00,000)	(5,000)	
	Adjusted post-acquisition profits	5,750	
	Japan Sony Co. Ltd.'s share 4/5 × 5,750	4,600	
	Minority Interest 1/5 × 5,750	1,150	
5.	**Minority Interest**		
	Paid-up value of (1,000 – 800) = 200 shares held by outsiders i.e. 200 × Rs. 100	20,000	
	Add: 1/5th share of pre-acquisition profits and reserves	8,000	{2 M}
	1/5th share of profit on revaluation	9,000	
	1/5th share of post-acquisition reserves	10,000	
	1/5th share of post-acquisition profit	1,150	
6.	**Cost of Control or Goodwill**	48,150	
	Paid-up value of 800 shares held by Japan Sony Co. Ltd. i.e. 800 × Rs. 100	80,000	{2 M}
	Add: 4/5th share of pre-acquisition profits and reserves	32,000	
	4/5th share of profit on the revaluation	36,000	

	Intrinsic value of shares on the date of acquisition	1,48,000
	Price paid by Japan Sony Co. Ltd. for 800 shares	1,60,000
	Less: Intrinsic value of the shares	(1,48,000)
	Cost of control or Goodwill	12,000

Answer 5:

(a)

KLM Bank Limited

Profit and Loss Account for the year ended 31st March, 20X2

		Schedule	Year ended 31.03.20X2 (Rs.)	
I.	Income:			
	Interest earned	13	**37,95,160**	
	Other income	14	**4,87,800**	
	Total		**42,82,960**	
II.	Expenditure			
	Interest expended	15	**22,95,360**	
	Operating expenses	16	**5,70,340**	
	Provisions and contingencies			
	(4,50,000+2,00,000+2,00,000)		**8,50,000**	**14 item**
	Total		**37,15,700**	**x**
III.	Profits/Losses			**{1/2 M}**
	Net profit for the year		**5,67,260**	
	Profit brought forward		**Nil**	
			5,67,260	
IV.	Appropriations			
	Transfer to statutory reserve (25% of 5,67,260)		**1,41,815**	
	Proposed dividend		**50,000**	
	Balance carried over to balance sheet		**3,75,445**	
			5,67,260	

Profit & Loss Account balance of Rs. 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. **{1/2 M}**

		Year ended 31.3.20X2 (Rs.)	
	Schedule 13 – Interest Earned		
I.	Interest/discount on advances/bills (Refer W.N.)	37,95,160	**{1/2 M}**
		37,95,160	
	Schedule 14 – Other Income		
I.	Commission, exchange and brokerage	1,90,000	
II.	Profit on sale of investment	2,25,800	**{1/2 M}**
III.	Rent received	72,000	
		4,87,800	
	Schedule 15 – Interest Expended		
I.	Interests paid on deposits	22,95,360	**{1/2 M}**
		22,95,360	
	Schedule 16 – Operating Expenses		
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000	
II.	Rent, taxes paid	1,00,000	
III.	Depreciation on assets	40,000	**{1/2 M}**
IV.	Director's fee, allowances and expenses	35,000	
V.	Auditor's fee	12,000	

VI.	Statutory (law) expenses	38,000
VII.	Postage and telegrams	65,340
VIII.	Preliminary expenses*	30,000
		5,70,340

Working Note:

	Rs.
Interest and discount received	38,00,160
Add: Rebate on bills discounted on 31.3. 20X1	15,000
Less: Rebate on bills discounted on 31.3. 20X2	(20,000)
	37,95,160

{1/2 M}

*It is assumed that preliminary expenses have been fully written off during the year.

Answer:

(b)

Form B-RA (Prescribed by IRDA)

Sunlife General Insurance Company

Revenue Account for the year ended 31st March, 2013

Particulars	Schedule	Amount (Rs.)
Premium earned (net)	1	**66,80,000**
Profit / Loss on sale / redemption of investments		
Others (to be specified)		
Interest, dividend and rent		
Total (A)		66,80,000
Claims incurred (Net)	2	**45,26,000**
Commission	3	**1,47,000**
Operating expenses related to insurance business	4	**1,50,000**
Total (B)		**48,23,000**
Operating profit from insurance business (A-B)		**18,57,000**

6 item x {1/2 M}

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	Rs.
Premium from direct business	**65,75,000**
Add: Premium on reinsurance accepted	**9,50,000**
Less: Premium on reinsurance ceded	**(4,75,000)**
Net premium	**70,50,000**
Adjustment for change in reserve for unexpired risks (W.N.2)	**(3,70,000)**
Total premium earned (net)	**66,80,000**

6 item x {1/4 M}

Schedule 2 : Claims Incurred (Net)

Particulars	Rs.
Claims paid on direct business (W.N.1)	**43,30,000**
Add: Re-insurance accepted (W.N.1)	**4,73,000**
Less: Re-insurance ceded (W.N.1)	**(3,70,000)**
Net claims paid	**44,33,000**
Add: Claims outstanding at the end of the year	**7,18,000**
Less: Claims outstanding at the beginning of the year	**(6,25,000)**
Total claims incurred	**45,26,000**

7 item x {1/4 M}

Schedule 3 : Commission

Particulars	Rs.
Commission paid on direct business	**1,50,000**
Add: Commission on reinsurance accepted	**11,000**
Less: Commission on reinsurance ceded	**(14,000)**
	1,47,000

4 item x {1/4 M}

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	Rs.
Expenses of management (2,30,000 – 35,000 – 45,000)	**1,50,000**
	1,50,000

1 item x {1/4 M}

Working Notes:

1. Claims incurred

Particulars	Direct business (Rs.)	Re-insurance accepted (Rs.)	Re-insurance ceded (Rs.)
Paid/received	42,50,000	5,00,000	3,25,000
Add: Outstanding at the end of the year		60,000	1,10,000
Expenses in connection with settlement of claim (35,000 + 45,000)	80,000		
Less: Outstanding at the beginning of the year		(87,000)	(65,000)
	43,30,000	4,73,000	3,70,000

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

2. Change in reserve for unexpired risk

	Rs.
Opening reserve as on 31^{st} March, 2012	24,50,000
Less: Closing reserve as on 31^{st} March, 2013 (Rs. 70,50,000 x 40%)	(28,20,000)
Additional provision required	(3,70,000)

{1 M}

Answer 6 :
(a)

In the books of Company Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
01-03-X2 to 31-03-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
	(Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)			
31-03-X2	Profit and Loss account	Dr.	4,32,000	
	To Employees compensation expenses A/c			4,32,000
	(Being transfer of employee compensation expenses)			

{1.5 M} **{1.5 M}**

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000/- in total. **{1/2 M}**

2. The Employees Compensation Expense is transferred to Securities Premium Account. **{1/2 M}**

3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6,24,000/- in total. **{1 M}**

Answer:

(b) Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

		(Rs. in lakhs)	
Standard Assets			
Accounts (Balancing figure)	86.00		
200 accounts overdue for a period for 2 months	40.00		
24 accounts overdue for a period by 3 months	24.00	150.00	{1 M}
Sub-Standard Assets			
4 accounts identified as sub-standard asset for a period less than 14 months		14.00	{1 M}
Doubtful Debts			
6 accounts identified as sub-standard for a period more than 14 months		6.00	{1 M}
4 accounts identified as sub-standard for a period more than 3 years		20.00	{1 M}
Loss Assets			
1 account identified by management as loss asset		10.00	{1 M}
Total overdue		200.00	

Answer:

(c)

(a)	Amount of foreseeable loss	**(Rs. in lakhs)**
	Total cost of construction (500 + 105 + 495)	1,100
	Less: Total contract price	(1,000)
	Total foreseeable loss to be recognised as expense	100

1M

According AS 7, when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognised as an expense immediately.

(b)	Contract work-in-progress i.e. cost incurred to date are Rs. 605 lakhs	**(Rs. in lakhs)**
	Work certified	500
	Work not certified	105
		605

1M

This is 55% (605/1,100×100) of total costs of construction.

(c) Proportion of total contract value recognised as revenue: 55% of Rs. 1,000 lakhs = Rs. 550 lakhs **1M**

(d) Amount due from/to customers = (Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= (605 + Nil – 100) – (400 + 140) Rs. in lakhs

= [505 – 540] Rs. in lakhs

Amount due to customers = Rs. 35 lakhs

The amount of Rs. 35 lakhs will be shown in the balance sheet as liability. **1M**

(e) The relevant disclosures under AS 7 are given below:

	Rs. in lakhs
Contract revenue	**550**
Contract expenses	605
Recognised profits less recognised losses	(100)
Progress billings Rs. (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

1M

Answer:

(d) Past profits of PPX Ltd. showed an increasing trend excepting in year 2015. But the effects of changes in accounting policies should be eliminated to ascertain the true nature of trend. Since the company has adopted LIFO method of Inventory valuation and W.D.V method of depreciation, profits may be recomputed applying these policies consistently in all the past years. Re-computation of profits following uniform accounting policies are shown below:

Year	Book Profits	Effect of LIFO on Valuation of Inventory.	Effect of W.D. V Depreciation	Profits after elimination of the effect of change in Accounting policies
2011	21,70	– 4,60	– 4,90	**(½M)** 12,20
2012	22,50	+ 3,50	– 3,95	**(½M)** 22,05
2013	23,70	+ 1,50	– 4,25	**(½M)** 20,95
2014	24,50	–20	– 2,90	**(½M)** 21,40
2015	21,10	—	—	**(½M)** 21,10

After elimination of the effect of change in accounting policies, increasing trend disappeared. Rather profits were oscillating during the last four years excepting 2011. So a simple average may be taken of the last 4 years profits to arrive at the future maintainable profits: $\frac{22{,}05 + 20{,}95 + 21{,}40 + 21{,}10}{4}$ = 21,37.50 **(½M)**

Working Note:

Effect of LIFO Valuation:

2011	Increase in Inventory as per FIFO valuation	6,00
	Less: Increase in Inventory per LIFO valuation	(1,40) **(½M)**
	Reduction in profit	4,60
2012	Increase in Inventory as per FIFO valuation	3,20
	Less: Increase in Inventory as per LIFO valuation	(6,70) **(½M)**
	Increase in profit	3,50
2013	Decrease in Inventory as per FIFO valuation	10,30
	Less: Decrease in Inventory as per LIFO valuation	(8,80) **(½M)**
	Increase in profit	1,50
2014	Opening Inventory as per FIFO valuation	38,90
	Less: Opening Inventory as per LIFO valuation	(39,10) **(½M)**
	Reduction in profit	20

Answer:

(e) In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months. **{5 M}**

***