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

DATE: 03.10.2019 **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)

- As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use. **2M**

- Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26. **1M**

- Accordingly, Base Limited would be required to restate the carrying amount of intangible asset as on 1.4.2011 at Rs. 112 lakhs less Rs. 33.6 lakhs $\left(\frac{112\,\text{lakhs}}{10\,\text{year}} \times 3\,\text{years}\right)$ = Rs. 78.4 lakhs. The difference of Rs. 6.6 lakhs i.e. (Rs. 85 lakhs - Rs. 78.4 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 78.4 lakhs would be amortized over remaining 7 year by Rs. 11.2 lakhs per year. **2M**

Answer:

(b) Computation of Basic Earnings per share-

		Year 2015-16 (Rs.)	Year 2016-17 (Rs.)	
(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 Rs. 35,00,000 / 15,00,000 shares	2.33		**{1 M}**
(ii)	EPS for the year 2015-16 restated for the right issue Rs. 35,00,000 / 15,00,000 shares x 1.08	2.16		**{1 M}**
(iii)	EPS for the year 2016-17 (including effect of right issue) Rs. 45,00,000 / [15,00,000 x 1.08x4/12)+ (20,00,000 x 8/12)]		2.40	**{1 M}**

Working Notes:

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

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights+total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$ **{1/2 M}**

[(Rs. 35 x 15,00,000) + (Rs. 25 x 5,00,000)] / (15,00,000 + 5,00,000) = Rs. 32.5 **{1/2 M}**

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$ **{1/2 M}**

= Rs. 35 / 32.50 = 1.08 (approx.) **{1/2 M}**

Answer:

(c) Provision:

As per AS-7 'Construction Contracts' when a contract covers a number of assets, the construction of each asset should be treated as a separate contract when:

1. separate proposal have been submitted for each asset;
2. each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
3. the costs and revenues of each asset can be identified.

{2 M}

Analysis:

In the given case, GTI Ltd. negotiates with Bharat Oil Corporation Ltd. Separate proposal is submitted for each construction, though a single agreement is entered between the two. Also values for each contract is defined separately such as Rs. 102 lakhs, Rs. 150 lakhs and Rs. 130 Lakhs for Region X, Region Y and Region Z respectively. **{1 M}**

Conclusion:

Thus, GTI Ltd. is required to treat construction of each unit as a separate construction contract. Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS-7. **{2 M}**

Answer:

(d) As per para 14 of AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognised when:

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

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

(iii) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognised.

{2 M}

A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. The possibility of an outflow of resources embodying economic benefits seems to be remote in the given situation, since the directors of WZW Ltd. are of the opinion that the claim can be successfully resisted by the company. Therefore, the company shall not disclose the same as contingent liability. However, following note in this regard may be given in annual accounts of the company: **{2 M}**

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of Rs. 1,000 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company". **{1 M}**

Answer: 2
(a)

Date	Particulars		Rs.	Rs.	
31.3.20X2	Employees compensation expense A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of Rs. 30 each, amortised on straight line basis over vesting years (Refer W.N.)	Dr.	14,25,000	 14,25,000	¾M
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	14,25,000	 14,25,000	¾M
31.3.20X3	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	3,95,000	 3,95,000	¾M
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	3,95,000	 3,95,000	¾M
31.3.20X4	Employees compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	8,05,000	 8,05,000	¾M
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)		8,05,000	 8,05,000	¾M
20X4-X5	Bank A/c (85,000 × Rs. 20) ESOS outstanding A/c [(26,25,000/87,500) x 85,000] To Equity share capital (85,000 x Rs. 10) To Securities premium A/c (85,000 x Rs. 40 (Being 85,000 options exercised at an exercise price of Rs. 50 each)	Dr. Dr.	17,00,000 25,50,000	 8,50,000 34,00,000	¾M
31.3.20X5	ESOS outstanding A/c To General Reserve A/c (Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)	Dr.	75,000	 75,000	¾M

Working Note:

Statement showing compensation expense to be recognized at the end of:

Particulars	Year 1 (31.3.20X2)	Year 2 (31.3.20X3)	Year 3 (31.3.20X4)	
Number of options expected to vest	95,000 options	91,000 options	87,500 options	
Total compensation expense accrued (50-20)	Rs. 28,50,000	Rs. 27,30,000	Rs. 26,25,000	1M
Compensation expense of	28,50,000 x 1/2	27,30,000 x 2/3	Rs. 26,25,000	1M

the year	= Rs. 14,25,000	= Rs. 18,20,000		
`Compensation expense recognized previously	Nil	Rs. 14,25,000	Rs. 18,20,000	1M
Compensation expenses to be recognized for the year	Rs. 14,25,000	Rs. 3,95,000	Rs. 8,05,000	1M

Answer:

(b) (i) **Computation of liability of underwriters in respect of shares**

	(In shares)			
	A	**B**	**C**	
Gross liability (Total Issue – Promoters etc) in agreed ration of 3 : 2 : 1	15,00,000	10,00,000	5,00,000	
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)	
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000	{4 M}
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)	
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)	
Surplus of C distributed to A & B in 3:2 ratio	(1,20,000)	(80,000)	2,00,000	
Net liability for underwriting shares	2,80,000	20,000	Nil	

(ii) Journal Entries in the books of Gemini Ltd.

		Rs.	**Rs.**	
A's Account B's Account To Share Capital Account To Securities Premium Account (Being the shares to be taken up by the underwriters)	Dr. Dr.	42,00,000 3,00,000	 30,00,000 15,00,000	{$1^{1/2}$ M}
Underwriting Commission Account To A's Account To B's Account To C's Account (Being the underwriting commission due to the underwriters)	Dr.	15,00,000	 7,50,000 5,00,000 2,50,000	{$1^{1/2}$ M}
Bank Account To A's Account (Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)	Dr.	34,50,000	 34,50,000	{1 M}
B's Account To Bank Account (Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)	Dr.	2,00,000	 2,00,000	{1 M}
C's Account To Bank Account (Being the underwriting commission paid to C)	Dr.	2,50,000	 2,50,000	{1 M}

Answer 3:

(a) Name of the Insurer: Xeta Insurance Company Limited

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

Revenue Account for the year ended 31st March, 2016

Particulars	Schedule	Amount (Rs.)
Premium earned (net)	1	**26,67,500**
Profit on sale of investment		**30,000**
Others		–
Interest and dividend (gross)		**1,50,000**
Total (A)		**28,47,500**
Claims incurred (Net)	2	**20,25,000**
Commission	3	**50,000**
Operating expenses related to insurance	4	**7,50,000**
Total (B)		**28,25,000**
Operating profit from insurance business (A) – (B)		**22,500**

{9 item x 1/2 M =4.5 M}

Schedule –1 Premium earned (net)

	Rs.
Premium received	33,60,000
Less: Premium on reinsurance ceded	(2,25,000)
Net Premium	31,35,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(4,67,500)
Total premium earned	26,67,500

{1 1/2 M}

Schedule -2 Claims incurred (net)

	Rs.
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31st March, 2016	2,70,000
	22,20,000
Less: Claims outstanding as on 31st March, 2015	(1,95,000)
	20,25,000

{1 1/2 M}

Schedule -3 Commission

	Rs.
Commission paid	50,000

{1/2 M}

Schedule-4 Operating expenses related to Insurance Business

	Rs.
Expenses of management (Rs. 8,40,000 – Rs. 90,000)	7,50,000

{1/2 M}

Working Note:

Calculation for change in Reserve for Unexpired risk:

		Rs.
Reserve for Unexpired Risk as on 31st March, 2016	15,67,500	
Additional Reserve as on 31st March, 2016	7,00,000	22,67,500
Less: Reserve for Unexpired Risk as on 31st March, 2015	15,00,000	
Additional Reserve as on 31st March, 2015	3,00,000	(18,00,000)
		4,67,500

{1 1/2 M}

Answer:

(b) In the books of Strong Bank Ltd. Journal Entries

Particulars		Debit (Rs.)	Credit (Rs.)	
Rebate on bills discounted A/c To Discount on bills A/c (Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')	Dr.	27	27	{1 M}
Bills purchased and discounted A/c To Discount on bills A/c To Clients A/c (Being the discounting of bills of exchange during the year)	Dr.	4,000	240 3,760	{1 M}
Discount on bills A/c To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)	Dr.	18	18	{1 M}
Discount on bills A/c To Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)	Dr.	249	249	{1 M}

Working Notes:

1. Discount received on the bills discounted during the year

$$\text{Rs. } 4{,}000 \text{ crores} \times \frac{15}{100} \times \frac{146}{365} = \text{Rs. } 240 \text{ crores}$$

{1/2 M}

2. Calculation of rebate on bill discounted

$$\text{Rs. } 600 \text{ crores} \times \frac{15}{100} \times \frac{73}{365} = \text{Rs. } 18 \text{ crores}$$

(It is assumed that discounting rate of 15% is used for the bill of Rs. 600 crores also)

{1/2 M}

3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c

Discount on bills A/c

Rs. in crores

Date	Particulars	Amount	Date	Particulars	Amount
31 March 2017	To Rebate on bills discounted	18	1st April, 2016	By Rebate on bills discounted b/f	27
"	To Profit and Loss A/c (Bal. Fig.)	249	2016-17	By Bills purchased and discounted	240
		267			267

{1 M}

Answer:

(c)

	Rs. in lakhs	Rs. in lakhs	
Opening bank balance [Rs. (100 – 90 - 5) lakhs]	**5.00**		
Add: Proceeds from sale of securities	**40.00**		
Dividend received	**1.20**	**46.20**	

Less: Cost of securities	**28.20**		
Fund management expenses [Rs. (4.50–0.35) lakhs]	**4.15**		
Capital gains distributed [75% of Rs. (40.00 – 38.00) lakhs]	**1.50**		
Dividends distributed (75% of Rs. 1.20 lakhs)	**0.90**	**(34.75)**	
Closing bank balance		**11.45**	
Closing market value of portfolio		**112**	
		123.45	
Less: Arrears of expenses		**(0.35)**	
Closing net assets		**123.10**	
Number of units			**10,00,000**
Closing Net Assets Value (NAV)			**Rs. 12.31**

{16 item x 1/4 M =4 M}

Answer 4:

(a) (i) Purchase consideration computation

	Rs.	
Cash payment for (3,00,000 x Rs. 2.5)	7,50,000	**{3/4 M}**
Equity Shares (4,50,000 x Rs. 15)	67,50,000	**{3/4 M}**
	75,00,000	**{3/4 M}**

In the books of Srishti Ltd.
Realisation Account

	Rs.		Rs.
To Goodwill	**5,00,000**	By 9% Debentures	**5,00,000**
To Tangible Fixed Assets	**30,00,000**	By Creditors	**1,00,000**
To Stock	**10,40,000**	By By Anu Ltd. (Purchase consideration)	**75,00,000**
To Debtors	**1,80,000**		
To Cash & Bank A/c (2,80,000- 25,000)	**2,55,000**		
To Cash & Bank A/c (Realization expenses)	**25,000**		
To Profit on realization transfer to shareholders	**31,00,000**		
	81,00,000		81,00,000

10 item x {1/4 M}

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary expenses	**50,000**	By Equity Share Capital	**30,00,000**
To Equity Shares in Anu Ltd.	**67,50,000**	By Export Profit Reserves	**8,50,000**
To Cash & Bank A/c	**7,50,000**	By General Reserves	**50,000**
		By P & L A/c	**5,50,000**
		By Realization A/c	**31,00,000**
	75,50,000		75,50,000

8 item x {1/4 M}

9% Debentures Account

	Rs.		Rs.
To Realization A/c	**5,00,000**	By Balance b/d	**5,00,000**

2 item x {1/4 M}

Anu Ltd.

	Rs.		Rs.
To Realization A/c	**75,00,000**	By Share Capital By Bank A/c	**67,50,000** **7,50,000**
	75,00,000		75,00,000

3 item x {1/4 M}

(ii) Journal Entries in the books of Anu Ltd.

			Rs.	Rs.
1	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd			75,00,000
	(Being business of Srishti Ltd. taken over)			
2	Tangible Fixed Assets	Dr.	60,00,000	
	Stock	Dr.	7,10,000	
	Debtors	Dr.	1,80,000	
	Cash & Bank A/c	Dr.	2,55,000	
	Goodwill A/c (Bal. fig.)	Dr.	10,64,000	
	To Provision for doubtful debts			9,000
	To Liability for 9 % Debentures			6,00,000
	To Creditors			1,00,000
	To Business Purchase account			75,00,000
	(Being assets and liabilities taken over)			
3	Amalgamation Adjustment A/c	Dr.	8,50,000	
	To Export Profit Reserves			8,50,000
	(Being statutory Reserves taken over)			
4	Goodwill	Dr.	50,000	
	To Bank A/c			50,000
	(Liquidation expenses reimbursed)			
5	Liquidator of Shristi Ltd.	Dr.	75,00,000	
	To Equity Share Capital			45,00,000
	To Securities Premium			22,50,000
	To Bank A/c			7,50,000
	(Being purchase consideration discharged)			
6	Liability for 9% Debentures (5,00,000 x 120/100)	Dr.	6,00,000	
	Discount on issue of debentures		25,000	
	To 8% Debentures (6,00,000 x 100/96)			6,25,000
	(Being liability of debenture holders' discharged)			

{1 M} (Entry 1) **{2 M}** (Entry 2) **{1 M}** (Entry 3) **{1 M}** (Entry 4) **{1 M}** (Entry 5) **{1 M}** (Entry 6)

Answer:

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	25,00,000 x 2%	**50,000**
3% on payment made to Preferential creditors	75,000 x 3%	**2,250**
3% on payment madeto Unsecured creditors (Refer W.N)		**39,255**
Total Remuneration payable to Liquidator		**91,505**

{4 item x 1 M}

Working Note:

Liquidator's remuneration on payment to unsecured creditors = Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration
= Rs. 25,00,000 – Rs. 25,000 – Rs. 10,00,000 – Rs. 75,000 – Rs. 50,000 – Rs. 2,250 = Rs. 13,47,750. **{1/2 M}**

Liquidator's remuneration on payment to unsecured creditors = 3/103 x Rs. 13,47,750= Rs. 39,255 **{1/2 M}**

Answer: 5

Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd.
As on 31st March, 2017

Particulars		Note No.	(Rs.)
I	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share capital		¾M{ **10,00,000**
	(b) Reserves and surplus (W.N.5.)		¾M{ **5,09,000**
	(2) Minority interest (W.N 3.)		¾M{ **1,46,000**
	(3) Non-current liabilities		
	(a) Long term borrowings	1	¾M{ **2,00,000**
	(4) Current Liabilities		
	(a) Trade payables	2	¾M{ **4,60,000**
	(b) Other current liabilities		¾M{ **2,40,000**
	(Rs. 2,00,000 + Rs. 40,000)		
	Total		25,55,000
II	**Assets**		
	(1) Non-current assets		
	(a) Fixed assets	3	¾M{ **10,55,000**
	(i) Tangible assets	4	¾M{ **3,40,000**
	(ii) Intangible assets		
	(2) Current assets		
	(a) Inventories	5	¾M{ **6,05,000**
	(b) Trade receivables	6	
	(c) Cash & cash equivalents	7	¾M{ **3,55,000**
			¾M{ **2,00,000**
			25,55,000

Notes to Accounts

1	**Long Term Borrowings**		
	Secured loans		
	13% Debentures (Rs. 100 each)		¾M{ **2,00,000**
2	**Trade Payables**		
	A Ltd.	3,80,000	
	B Ltd.(W.N 1)	1,40,000	
		5,20,000	

	Less : Mutual indebtedness	(60,000)	¾M{ **4,60,000**
3	**Tangible Assets**		
	A Ltd.	6,50,000	
	B Ltd.	4,05,000	¾M{ **10,55,000**
4	**Intangible assets**		
	Goodwill (W.N 2)		¾M{ **3,40,000**
5	**Inventories**		
	A Ltd.	2,00,000	
	B Ltd.[WN 1]	4,20,000	
		6,20,000	
	Less : Unrealised profit [90,000 X 20/120]	(15,000)	¾M{ **6,05,000**
	Trade Receivables		
6	A Ltd.	1,50,000	
	B Ltd.	2,65,000	
		4,15,000	
	Less : Mutual indebtedness	(60,000)	¾M{ **3,55,000**
7	**Cash & Cash equivalents**		
	A Ltd.	80,000	
	B Ltd.[W.N 1]	1,20,000	¾M{ **2,00,000**

Working Notes:

1. Adjustments to be made in the balance sheet items of B Ltd.:

Assets side	(Rs.)	
Inventories:		
As on 31st December, 2016	3,50,000	
Add : Unsold Inventory out of goods purchased from A Ltd.	90,000	
	4,40,000	**(½M)**
Less: Loss of inventory by fire	(20,000)	
	4,20,000	
Cash & Bank balance:		
As on 31st December, 2016	1,05,000	
Add: Insurance claim received [20,000 × 75 %]	15,000	**(½M)**
	1,20,000	
Liabilities side:		
Trade payables:		
As on 31st December, 2016	80,000	**(½M)**
Add: Owings to A Ltd. on 31st March, 2017	60,000	
	1,40,000	
Reserves and Surplus:		
As on 31st December, 2016	2,05,000	
Less: Abnormal Loss on goods destroyed [20,000 – 15,000]	(5,000)	
	2,00,000	**(½M)**
Add: Profit from sale of goods purchased from A Ltd.	30,000	
	2,30,000	

2. Goodwill / capital reserve on consolidation:

	(Rs.)	(Rs.)	
Amount paid for 40,000 Shares		8,00,000	
Less: Nominal value of proportionate share capital	4,00,000		
Share of pre-acquisition profits (80% of Rs. 75,000)	60,000	(4,60,000)	**(1M)**
Goodwill		3,40,000	

3. Minority Interest: 10,000 / 50,000 shares = 20%

	(Rs.)	
Paid up value of 10,000 shares	1,00,000	
Add: 20% of Reserves & Surplus of B Ltd. (20% of Rs. 2,30,000)	46,000	**(1½M)**
	1,46,000	

4. Profit /Loss on Debentures acquired

	(Rs.)	
Amount paid for 1,000 Debentures	1,50,000	
Less: Nominal value of proportionate 13% debentures	(1,00,000)	**(1M)**
Loss charged to Profit and Loss Account	50,000	

5. Reserves and Surplus of A Ltd.:

	(Rs.)	
Balance as on 31st March, 2017	4,50,000	
Add: Share of revenue reserves of B Ltd. ([80% of Rs. 1,55,000 (i.e. 2,30,000 – 75,000)]	1,24,000	
	5,74,000	**(1M)**
Less: Unrealised profit on inventory $\frac{1}{6}$ 90,000	(15,000)	
Loss on elimination of debentures acquired	(50,000)	
	5,09,000	

Answer: 6

(a) Analysis :-

(i) P Ltd. is a majority shareholder [60%] in Q Ltd. Thus, P Ltd has contral over Q Ltd.

(ii) Q. Ltd holds 20% shares in R Ltd.
So Q Ltd has significant influence over R Ltd.

(iii) P Ltd & Q Ltd. together hold (14% + 20%) = 34% of the shares in R Ltd.
So, P Ltd. has significant influence over R Ltd. **2½M**

<u>Signification influence</u>

When an investing Party holds; directly or indirectly through intermediaries, 20% or more of the voting power, it is presumed that there is a significant influence, unless otherwise proved, P Ltd., Q Ltd. and R Ltd. are related parties.
Hence the disclosure requirement of AS-18 are applicable in the above case. **2½M**

Answer 6:

(b) On the basis of the information given, in respect of hire purchase and leased assets, additional provision shall be made as under:

		(Rs. in crore)
(a) Where hire charges are overdue upto 12 months	Nil	**Nil**
(b) Where hire charges are overdue	10% of the net book value	**172.50**

for more than 12 months but upto 24 months	10% x (675+1,050)		
(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**	{5 item x 1 M}
(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**	

Answer 6(c)

Computation of Average Capital employed

		(Rs. in lakhs)	
Total Assets as per Balance Sheet		591.20	
Less: Non-trade investments (20% of Rs. 40 lakhs)		(8.00)	
		583.20	
Less: Outside Liabilities:			
10% Debentures	20.00		
12% Term Loan	72.00		
Trade Payables	64.00		
Provision for Taxation	25.60	(181.60)	
Capital Employed as on 31.03.2017		**401.60**	2½ M
Less: ½ of profit earned during the year:			
Increase in General Reserve balance	2.00		
Increase in Profit & Loss A/c	78.40		
	80.40 /2	**40.20**	2½ M
Average capital employed		361.40	

Answer 6(d)

In the books of KG Limited Journal Entries

Date	**Particulars**		**Dr.**	**Cr.**	
2013			**(Rs. in lakhs)**		
April 1	Bank A/c	Dr.	75		3/4 M
	To Investment A/c			74	
	To Profit on sale of investment			1	
	(Being investment sold on profit)				
April 5	Equity share capital A/c	Dr.	300		1 M
	Securities premium A/c	Dr.	150		
	To Equity shares buy back A/c			450	
	(Being the amount due to equity shareholders on buy back)				
	Equity shares buy back A/c	Dr.	450		3/4 M
	To Bank A/c			450	
	(Being the payment made on account of buy back of 30 Lakh Equity Shares)				
April 5	General reserve A/c	Dr.	265		1 M
	Profit and Loss A/c	Dr.	35		
	To Capital redemption reserve A/c			300	
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)				

April 30	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)	225	225	**3/4 M**
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)	225	225	**3/4 M**

Answer:

(e) As per AS 19 on 'Leases', a sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the asset back to the vendor. The lease payments and the sale price are usually interdependent, as they are negotiated as a package. The accounting treatment of a sale and lease back transaction depends upon the type of lease involved. **1½ M**

If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sale proceeds over the carrying amount should be deferred and amortised over the lease term in proportion to the depreciation of the leased asset. **1½ M**

If sale and leaseback transaction results in a operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognised immediately. If the sale price is below fair value any profit or loss should be recognised immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used. **2 M**

***