(GI-1, GI-2+4, GI-3, GI-5+6 & VDI-1, VI-1, SI-1)

DATE: 01.10.2020 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) (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. **{1$^{1/2}$ M}**

Fun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Fun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Fun Ltd. should provide for the contingency amounting Rs. 1.5 crores as per AS 29. **{1$^{1/2}$ M}**

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting Rs. 1.50 crores. **{2 M}**

Answer:

(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 **{3/4 M}**

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. **{3/4 M}**

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 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. **{1 M}**

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

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. 2,50,000 as the time period for rejecting the goods had expired. **{1 M}**

Thus total revenue amounting Rs. 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. **{1/2 M}**

Answer:

(c) 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:

(d) Computation of Earnings Per Share

	Earnings Rs.	**Shares**	**Earnings per share Rs.**
Net Profit for the year 2009-10	30,00,000		
Weighted average number of shares outstanding during the year 2009-10		12,00,000	
Basic Earning Per Share			**2.50** **{2 M}**
$= \frac{30,00,000}{12,00,000}$			
Number of shares under option		2,00,000	
Number of shares that would have been issued at fair value (As indicated in Working Note)			
$= [2,00,000 \text{x} \frac{15}{25}]$		(1,20,000)	

Diluted Earnings Per Share			
$\left[\frac{30,00,000}{12,80,000}\right]$	30,00,000	12,80,000	**2.34**

{2 M}

Working Note:
The earnings have not been increased as the total number of shares has been increased only by the number of shares (80,000) deemed for the purpose of the computation to have been issued for no consideration. {1 M}

Answer 2:
(a) (i) **Liquidator's Statement of Account**

		Rs.				**Rs.**
To	Assets Realised	**20,00,000**	By	Liquidator's remuneration		
To	Receipt of call	**58,000**		2.5% on 23,20,000*	**58,000**	
	money on 29,000			2% on 50,000	**1,000**	
	equity shares @ 2 per			2% on 13,12,745 (W.N.3)	**26,255**	**85,255**
	share		By	Liquidation Expenses		**10,000**
			By	Debenture holders having		**6,00,000**
				a floating charge on all		
				assets		
			By	Preferential creditors		**50,000**
			By	Unsecured creditors		**13,12,745**
		20,58,000				20,58,000

10 items x ½ M

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \text{ x } 100 = 71.73\%$$

{1 M}

Working Notes:

1. Unsecured portion in partly secured creditors=Rs. 3,50,000 - Rs. 3,20,000 = Rs. 30,000 {1 M}
2. Total unsecured creditors = 18,00,000 + 30,000 (W.N.1) = Rs. 18,30,000 {1 M}
3. Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs. 13,39,000

Liquidator's remuneration on unsecured creditors $= \frac{2}{102}$ x 13,39,000= Rs. 26,255

or on Rs. 13,12,754 x 2/100 = Rs. 26,255

{2 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) 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}

Answer 3:

(a) (i) **In the books of X Ltd.**
Realisation Account

		Rs. in lakhs			Rs. in lakhs
To	Land and Buildings A/c	**445**	By	10% Secured Cumulative Debentures A/c	**600**
To	Plant and Machinery A/c	**593**	By	Outstanding Debenture interest A/c Trade	**30**
To	Furniture, Fixtures & Fittings A/c	**114**	By	payables A/c	**170**
To	Inventories A/c	**380**	By	P Ltd. A/c	**1,150**
To	Trade Receivables A/c	**256**		(purchase consideration – Refer working note)	
To	Bank A/c	**69**			
To	Cash in Hand A/c	**6**			
To	Equity Shareholders' A/c	**87**			
	(Profit on Realisation)				
		1,950			1,950

12 items x ½ M

(ii) **In the books of P Ltd.**
Journal Entries

			Dr. Rs. in lakhs	Cr. Rs. in lakhs
1.	Business Purchase A/c	Dr.	1,150	
	To Liquidator of X Ltd. A/c			1,150
	(Being purchase consideration due)			
2.	Land and Buildings A/c	Dr.	445	
	Plant and Machinery A/c	Dr.	593	
	Furniture, Fixtures & Fittings A/c	Dr.	114	
	Inventories A/c	Dr.	380	
	Trade Receivables A/c	Dr.	256	
	Bank A/c	Dr.	69	
	Cash in Hand A/c	Dr.	6	

{1 M} {2 M}

	Profit and Loss A/c	Dr.	87		
	To 10% Debentures A/c			600	
	To Outstanding Debenture interest A/c			30	
	To Trade payables A/c			170	
	To Business Purchase A/c			1,150	
	(Being assets and liabilities taken over from X Ltd. under the scheme of amalgamation in the nature of merger)				
3.	Liquidators of X Ltd. A/c	Dr.	1,150		
	To Equity Share Capital A/c			640	
	To 13% Cumulative Preference Shares A/c			350	
	To Securities Premium A/c			160	{1 M}
	(Being discharge of consideration, by allotment of 64 lakhs equity shares of Rs. 10 each at a premium of Rs. 2.50 per share and 35 lakhs 13% cumulative preference shares of Rs. 10 each at par)				
4.	10% Secured Cumulative Debentures A/c	Dr.	600		
	To 10.5% Secured Cumulative Debentures A/c			600	{1 M}
	(Being 10% Secured Cumulative Debentures of X Ltd. converted into 10.5% Secured Cumulative Debentures of P Ltd.)				
5.	Outstanding Debenture interest A/c	Dr.	30		
	To Bank A/c			30	{1/2 M}
	(Being outstanding debenture interest paid in cash by P Ltd.)				
6.	Profit and Loss A/c	Dr.	2		
	To Bank A/c			2	{1/2 M}
	(Being amalgamation expenses met by P Ltd.)				
7.	Trade Payables A/c	Dr.	7		
	To Trade Receivables A/c			7	{1/2 M}
	(Being settlement of mutual liability)				
8.	Profit and Loss A/c	Dr.	1		
	To Inventories A/c (5 x 20%)			1	{1/2 M}
	(Being unrealized profit on Inventory eliminated from the inventories of P Ltd.)				

Working Note:
Calculation of Purchase Consideration payable by P Ltd.

	Rs. in lakhs	
Payment to preference shareholders:		
13% Cumulative Preference Shares of Rs. 10 each (35 lakhs shares × Rs. 10)	350	
Payment to equity shareholders:		{2 M}
(80 lakhs shares x 4/5)= 64 lakhs equity shares @ Rs. 10	640	
Securities Premium (64 lakhs equity shares @ Rs. 2.5)	160	
Total purchase consideration	1,150	

Answer:
(b)

Journal Entries

		Rs.	**Rs.**	
Equity Share Capital (old) A/c	Dr.	10,00,000		
To Equity Share Capital (Rs. 10) A/c			6,00,000	
To 10% Preference Share Capital A/c			1,20,000	{2 M}
To 8% Debentures A/c			40,000	
To Capital Reduction A/c			2,40,000	

(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c Dr. To 10% First Debentures A/c (Being allotment of 10% first Debentures)	1,00,000	1,00,000	{1 M}
Capital Reduction A/c Dr. To Goodwill Account To Plant and Machinery Account To Freehold Property Account (Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)	2,40,000	1,40,000 50,000 50,000	{2 M}

Answer 4:

(a)

Samsung Bank Ltd

Profit and Loss Account for the year ended 31st March, 2013

			(Rs. in '000)
	Particulars	**Schedule No.**	**Year ended on 31st March,2013**
I.	Income		
	Interest earned (W.N. 1)	13	**8,830**
	Other income	14	**220**
	Total		**9,050**
II.	Expenditure		
	Interest expended	15	**2,720**
	Operating expenses	16	**2,830**
	Provisions and contingencies (W.N. 4)		**2,513.95**
	Total		**8,063.95**
III.	Profit/Loss		
	Net profit/(loss) for the year		**986.05**
	Profit/(loss) brought forward		**Nil**
	Total		**986.05**
IV.	Appropriations		
	Transfer to statutory reserve @ 25%		**246.51**
	Balance carried to balance sheet		**739.54**
	Total		**986.05**

13 items x ½ M

Working Notes:

(1) Schedule 13 – Interest Earned

			(Rs. '000s)
(i)	Interest and discount	8,860	
	Less: Rebate on bills discounted not provided	(30)	
	Interest accrued on investments	(10)	8,820
(ii)	Interest accrued on investments		10
			8,830

{1½ M}

Note: Interest accrued on investments to be shown separately under Interest Earned.

(2) Calculation of Provisions and Contingencies

Assets	Amount	% of Provision	Provision
	(Rs. in '000)		(Rs. in '000)
Standard assets	4,000	0.40	16
Sub-standard assets*	2,240	15	336
Doubtful assets (unsecured)	390	100	390
Doubtful assets – covered by security			
Less than 1 year	100	25	25
More than 1 year but less than 3 years	600	40	240
More than 3 years	600	100	600
Loss assets	376	100	376
Total provision	8,306		1,983

{1 M}

*Note: It is assumed that sub-standard assets are fully secured.

(3) Calculation of provision on tax = 35% (Total income – Total expenditure)
= 35% of Rs. [(9,050 – (2,720 + 2,830 + 1,983)]
= 35% of Rs. 1,517
= Rs. 530.95 {1/2 M}

(4) Total provisions and contingencies = Rs. 1,983 + Rs. 530.95 = Rs. 2,513.95. {1/2 M}

Answer:

(b) Adjusted revenue reserves of Nitin Ltd.

	Rs.	Rs.
Revenue reserves as given		**3,57,000**
Add: Provision for doubtful debts [4,45,500 / 99 X 1]		**4,500**
		3,61,500
Less: Reduction in value of Inventory	17,000	
Advertising expenditure to be written off	15,000	**(32,000)**
Adjusted revenue reserve		3,29,500

4 items x ½ M

Note: Since Nitin Ltd. follows FIFO basis, it is assumed that opening inventory has been sold out during the year 2015. Therefore, reduction in inventory would have been taken care of by sale value. Hence no adjustment has been made for the same.

Restated Balance Sheet of Nitin Ltd.
as at 31st December, 2016

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		**2,50,000**
(b) Reserves and Surplus	1	**3,29,500**
(2) Current Liabilities		
(a) Short term borrowings	2	**85,000**
(b) Trade Payables		**2,47,000**
(c) Short-term provision	3	**2,15,000**
Total		11,26,500

11 items x ½ M

II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	**1,12,000**
(b) Non-current Investment		**2,00,000**
(2) Current assets		
(a) Inventories		**3,54,000**
(b) Trade Receivables		**4,50,000**
(c) Cash & Cash Equivalents		**1,500**
(d) Other current assets	5	**9,000**
Total		11,26,500

Notes to Accounts

			Rs.
1.	**Reserves and Surplus**		
	Revenue Reserve (refer computation of adjusted revenue reserves of Nitin Ltd)		**3,29,500**
2.	**Short term borrowings**		
	Bank overdraft		**85,000**
3.	**Short-term provision**		
	Provision for taxation		**2,15,000**
4.	**Tangible Assets**		
	Cost	1,60,000	
	Less: Depreciation to date	(48,000)	**1,12,000**
5.	**Other current assets**		
	Prepaid expenses (After adjusting advertising expenditure to be written off each year)		**9,000**

5 items x ½ M

Answer 5:

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

Particulars		Note No.	(Rs.)
I	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share capital		**¾ M{ 10,00,000**
	(b) Reserves and surplus (W.N.5.)		**¾ M{ 5,09,000**
	(2) Minority interest (W.N 3.)		**¾ M{ 1,46,000**
	(3) Non-current liabilities		
	(a) Long term borrowings	1	**¾ M{ 2,00,000**
	(4) Current Liabilities		
	(a) Trade payables	2	**¾ M{ 4,60,000**
	(b) Other current liabilities		**¾ M{ 2,40,000**
	(Rs. 2,00,000 + Rs. 40,000)		
	Total		25,55,000

II	**Assets**		
	(1) Non-current assets		
	(a) Fixed assets	3	**¾ M{ 10,55,000**
	(i) Tangible assets	4	**¾ M{ 3,40,000**
	(ii) Intangible assets		
	(2) Current assets		
	(a) Inventories	5	**¾ M{ 6,05,000**
	(b) Trade receivables	6	
	(c) Cash & cash equivalents	7	**¾ M{ 3,55,000**
			¾ M{ 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**		
	Y Ltd.	3,80,000	
	Z Ltd. (W.N 1)	1,40,000	
		5,20,000	
	Less : Mutual indebtedness	(60,000)	**¾M{ 4,60,000**
3	**Tangible Assets**		
	Y Ltd.	6,50,000	
	Z Ltd.	4,05,000	**¾M{ 10,55,000**
4	**Intangible assets**		
	Goodwill (W.N 2)		**¾M{ 3,40,000**
5	**Inventories**		
	Y Ltd.	2,00,000	
	Z 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	Y Ltd.	1,50,000	
	Z Ltd.	2,65,000	
		4,15,000	
	Less : Mutual indebtedness	(60,000)	**¾M{ 3,55,000**
7	**Cash & Cash equivalents**		
	Y Ltd.	80,000	
	Z Ltd. [W.N 1]	1,20,000	**¾M{ 2,00,000**

Working Notes:

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

Assets side	(Rs.)
Inventories:	

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

2. Goodwill / capital reserve on consolidation:

	(Rs.)	(Rs.)	
Amount paid for 40,000 Shares		8,00,000	(1 M)
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)	
Goodwill		3,40,000	

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

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

4. Profit /Loss on Debentures acquired

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

5. Reserves and Surplus of Y Ltd.:

	(Rs.)
Balance as on 31st March, 2017	4,50,000

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

(1 M)

Answer 6:

(a) Following will be the treatment in the given cases:

(a) When sales price of Rs. 50 lakhs is equal to fair value, Lions 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 Lions 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 Lions 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 Lions Ltd. in its books and profit of Rs. 4 lakhs (39-35) should be amortised/deferred over lease period. **{3/4 M}**

Answer:

(b)

In the books of XYZ Ltd.
Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.20X1	Employees compensation expense account Dr. To Employee stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortized on straight line basis over 2½ years) (1,000 stock options × Rs. 120 / 2.5 years)	48,000	48,000
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	48,000	48,000
31.3.20X2	Employees compensation expenses account Dr. To Employee stock option outstanding account (Being compensation expense recognized in respect of the employee stock option i.e. 1,000	48,000	48,000

(½ M)

(½ M)

(½M)

	options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over 2½ years) (1,000 stock options × Rs. 120/2.5 years)			
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	48,000	48,000	**(½ M)**
1.3.20X3	Employee stock option outstanding account Dr. (W.N.1) To General Reserve account (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)	12,000	12,000	**(½ M)**
30.6.20X3	Bank A/c (600 × Rs. 40) Dr. Employee stock option outstanding account Dr. (600 × Rs. 120) To Equity share capital account (600×Rs. 10) To Securities premium account (600×Rs. 150) Being 600 employee stock option exercised at an exercise price of Rs. 40 each	24,000 72,000	6,000 90,000	**(½ M)**
01.10.20X3	Employee stock option outstanding account Dr. (W.N.2) To General reserve account (W.N.2) (Being ESOS outstanding A/c on lapse of 100 options at the end of exercise of option period transferred to General Reserve A/c)	12,000	12,000	**(½ M)**

Working Notes:

1. On 31.3.20X3, XYZ Ltd. will examine its actual forfeitures and make necessary adjustments, if any, to reflect expenses for the number of options that actually vested. Considering that 700 stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

No. of options actually vested (700 x 120)	Rs. 84,000	**(1M)**
Less: Expenses recognized Rs. (48,000 + 48,000)	(Rs. 96,000)	
Excess expense transferred to general reserve	Rs. 12,000	

2. Similarly, on 1.10.20X3, Employee Stock Option Outstanding Account will be

No. of options actually vested (600 x 120)	Rs. 72,000	**(1M)**
Less: Expenses recognized	(Rs. 84,000)	
Excess expense transferred to general reserve	Rs. 12,000	

Employee Stock Options Outstanding will appear in the Balance Sheet under a separate heading, between 'Share Capital' and 'Reserves and Surplus'.

Answer:

(c) Calculation of foreseeable loss for the year ended 31st March, 2019 (as per AS 7 "Construction Contracts")

	(Rs. in lakhs)	
Cost incurred till 31st March, 2019	**83.99**	5 items x ½ M
Prudent estimate of additional cost for completion	**36.01**	
Total cost of construction	**120.00**	
Less: Contract price	**(108.00)**	
Foreseeable loss	**12.00**	

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of Rs. 12 lakhs is required to be provided for in the books of Janpath Construction Company for the year ended 31st March, 2019. **{$2^{1/2}$ 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 YZY 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:

(e) **Journal Entries in the books of K Ltd.**

			Dr. Rs. in '000	Cr. Rs. in '000	
1.	Bank A/c Profit and Loss A/c To Investment A/c (Being investment sold for the purpose of buy- back of Equity Shares)	Dr. Dr.	2,500 500	 3,000	{1 M}
2.	Equity share capital A/c Premium payable on buy-back To Equity shares buy-back A/c (Being the amount due on buy-back of equity shares)	Dr. Dr.	600 300	 900	{1 M}
3.	Equity shares buy-back A/c To Bank A/c (Being payment made for buy-back of equity shares)	Dr.	900	 900	{1 M}

4.	Securities Premium A/c To Premium payable on buy-back (Being premium payable on buy-back charged from Securities premium)	Dr.	300	300	**{1 M}**
5.	Revenue reserve A/c To Capital Redemption Reserve A/c (Being creation of capital redemption reserve to the extent of the equity shares bought back)	Dr.	600	600	**{1 M}**

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