(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 12.03.2021 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) Computation of Basic Earnings per Share

		Year 2012-13 (Rs.)	Year 2013-14 (Rs.)	
(i)	EPS for the year 2012-13 as originally reported = Net profit for the year attributable to equity share holder/weighted average number of equity shares outstanding during the year $\frac{\text{Rs. } 22,00,000}{10,00,000 \text{ shares}}$ shares	2.20		**(½ M)**
(ii)	EPS for the year 2012-13 restated for the right issue $\frac{\text{Rs. } 22,00,000}{10,00,000 \text{ shares x } 1.04}$	2.12		**(½ M)**
(iii)	EPS for the year 2013-14 (including effect of right issue) $\frac{\text{Rs. } 30,00,000}{(10,00,000 \text{ x } 1.04 \text{ x } 4/12)+(12,00,000 \text{ x } 8/12)}$		2.62	**(2 M)**

Working Notes:

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

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

$$\frac{(\text{Rs. } 32 \times 10{,}00{,}1000) + (\text{Rs. } 25 \times 2{,}00{,}000)}{10{,}00{,}000 + 2{,}00{,}000}$$

= Rs. 30.83 **(1 M)**

2. **Computation of adjustment factor**

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

$= \dfrac{\text{Rs. } 32}{\text{Rs. } 30.83}$ =1.04 (approx.) **(1 M)**

Answer:

(c) Reporting entity- A Ltd.

- B Ltd. (subsidiary) is a related party
- O Ltd.(subsidiary) is a related party **(1 M)**

Reporting entity- B Ltd.

- A Ltd. (holding company) is a related party
- O Ltd. (subsidiary) is a related party **(1 M)**

Reporting entity- O Ltd.

- A Ltd. (holding company) is a related party
- B Ltd. (holding company) is a related party
- Z Ltd. (investor/ investing party) is a related party **(2 M)**

Reporting entity- Z Ltd.

- O Ltd. (associate) is a related party **(1 M)**

Answer:

(d) • 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. **(2 M)**

• 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. **(1 M)**

• 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. **(2 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) 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

(1/2M)

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

(3/4M)

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

(3/4M)

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 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		**(1/2 M)**
	To Bank account			5,00,000	
	(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		**(1/2 M)**
	Securities premium account	Dr.	2,50,000		
	To Equity shares buy-back account			5,00,000	
	(Being cancellation of shares bought back)				
(c)	Revenue reserve account	Dr.	2,50,000		**(1/2 M)**
	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)				

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

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

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

(1M)

by solving the above equation, we get

x = Rs. 2,87,500

y = Rs. 5,75,000

Answer 3:

(a) (i)

In the books of V 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 To Liquidator of V Ltd. A/c (Being purchase consideration due)	Dr.	1,150	1,150	{1 M}
2.	Land and Buildings A/c Plant and Machinery A/c Furniture, Fixtures & Fittings A/c Inventories A/c Trade Receivables A/c Bank A/c Cash in Hand A/c Profit and Loss A/c To 10% Debentures A/c To Outstanding Debenture interest A/c To Trade payables A/c To Business Purchase A/c (Being assets and liabilities taken over from V Ltd. under the scheme of amalgamation in the nature of merger)	Dr. Dr. Dr. Dr. Dr. Dr. Dr. Dr.	445 593 114 380 256 69 6 87	 600 30 170 1,150	{2 M}
3.	Liquidators of V Ltd. A/c To Equity Share Capital A/c To 13% Cumulative Preference Shares A/c To Securities Premium A/c (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)	Dr.	1,150	 640 350 160	{1 M}
4.	10% Secured Cumulative Debentures A/c To 10.5% Secured Cumulative Debentures A/c (Being 10% Secured Cumulative Debentures of V Ltd. converted into 10.5% Secured Cumulative Debentures of P Ltd.)	Dr.	600	600	{1 M}
5.	Outstanding Debenture interest A/c To Bank A/c (Being outstanding debenture interest paid in cash by P Ltd.)	Dr.	30	30	{1/2 M}
6.	Profit and Loss A/c To Bank A/c (Being amalgamation expenses met by P Ltd.)	Dr.	2	2	{1/2 M}
7.	Trade Payables A/c To Trade Receivables A/c (Being settlement of mutual liability)	Dr.	7	7	{1/2 M}
8.	Profit and Loss A/c To Inventories A/c (5 x 20%) (Being unrealized profit on Inventory eliminated from the inventories of P Ltd.)	Dr.	1	1	{1/2 M}

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:	
(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

{2 M}

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
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.	1,00,000	
To 10% First Debentures A/c			1,00,000
(Being allotment of 10% first Debentures)			
Capital Reduction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

{2 M} {1 M} {2 M}

Answer 4:

(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
	Total		37,15,700
III.	Profits/Losses		
	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

14 item x {1/2 M}

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 M}

		Year ended 31.3.20X2 (Rs.)	
	Schedule 13 – Interest Earned	`	
I.	Interest/discount on advances/bills (Refer W.N.)	37,95,160	{1 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	{2 M}
III.	Rent received	72,000	
		4,87,800	
	Schedule 15 – Interest Expended		
I.	Interests paid on deposits	22,95,360	{1 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	
IV.	Director’s fee, allowances and expenses	35,000	
V.	Auditor’s fee	12,000	{2 M}
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	{1 M}
Less: Rebate on bills discounted on 31.3. 20X2	(20,000)	
	37,95,160	

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

Answer:

(b) Statement showing computation of 'Net Owned Fund'

		Rs. in 000	
Paid up Equity Capital		100	}½M
Free Reserves		500	}½M
		600	
Less: Deferred expenditure		(200)	}½M
	A	400	}½M
Investments			
In shares of subsidiaries and group companies		100	}½M
In debentures of subsidiaries and group companies		100	}½M
	B	200	}½M
10% of A		40	}½M
Excess of Investment over 10% of A (200-40)	C	160	}½M
Net Owned Fund [(A) - (C)] (400-160)		240	}½M

Answer 5:

Consolidated Balance Sheet of H Ltd.
and its subsidiary S Ltd. as on 31st March, 2017

	Particulars	Note No.	(Rs. in Lacs)	
I.	Equity and Liabilities			
	(1) Shareholder's Funds			
	(a) Share Capital	1	12,000	{1/2 M}
	(b) Reserves and Surplus	2	7,159	{1/2 M}
	(2) Minority Interest [W.N.6]		3,120	{1/2 M}
	(3) Current Liabilities			
	(a) Trade payables	3	2,315	{1/2 M}
	(b) Short term provisions	4	1,249	{1/2 M}
	(c) Other current liabilities	5	1,687	{1/2 M}
	Total		27,530	
II.	Assets			
	(1) Non-current assets			
	Fixed assets			
	Tangible assets	6	14,954	{1/2 M}
	(2) Current assets			
	(a) Inventories	7	5,885	{1/2 M}
	(b) Trade receivables	8	3,963	{1/2 M}
	(c) Cash and cash equivalents	10	1,694	{1/2 M}
	(d) Short term loans and advances	11	520	{1/2 M}
	(e) Other current assets	9	514	{1/2 M}
	Total		27,530	

Notes to Accounts

			(Rs. in lacs)	(Rs. in lacs)	
1.	Share Capital				
	Authorised			15,000	
	Issued and Subscribed:				
	Equity shares of Rs. 10 each, fully paid up			12,000	{1/2 M}
2.	Reserves and surplus				
	Capital Reserve (Note 5)		1,320		
	General Reserve (Rs. 2,784 + 108)		2,892		
	Profit and Loss Account:				
	H Ltd.	Rs. 2,715			
	Less: Dividend wrongly credited Rs. 360				
	Unrealized Profit Rs. 20	Rs. 380			
		Rs. 2,335			
	Add: Share in S Ltd.'s Revenue profits	Rs. 612	2,947	7,159	{1/2 M}
3.	Trade payables				
	H Ltd.		1,461		
	S Ltd.		854	2,315	{1/2 M}
4.	Short term provisions				
	Provision for Taxation				
	H Ltd.		855		

	S Ltd.		394	1,249	{1/2 M}
5.	Other current liabilities				
	Bills Payable				
	H Ltd.		Rs. 372		
	S Ltd.		Rs. 160		
			Rs. 532		
	Less: Mutual owing		Rs. (45)	487	{1/2 M}
	Dividend payable				
	H Ltd.			1,200	{1/2 M}
				1,687	
6.	Tangible assets				
	Land and Buildings				
	H Ltd.		2,718		
	Plant and Machinery				
	H Ltd.	Rs. 4,905			
	S Ltd.	Rs. 4,900	9,805		
	Furniture and Fittings				
	H Ltd.	Rs. 1,845			
	S Ltd.	Rs. 586	2,431	14,954	{1/2 M}
7.	Inventories				
	Stock				
	H Ltd.		3,949		
	S Ltd.		1,956		
			5,905		
	Less: Unrealized profit		(20)	5,885	{1/2 M}
8.	Trade receivables				
	H Ltd.	Rs. 2,600			
	S Ltd.	Rs. 1,363		3,963	{1/2 M}
9.	Other current assets				
	Bills Receivable				
	H Ltd.	Rs. 360			
	S Ltd.	Rs. 199			
		Rs. 559			
	Less: Mutual Owing	Rs. 45		514	{1/2 M}
10.	Cash and cash equivalents				
	Cash and Bank Balances				
	H Ltd.		1,490		
	S Ltd.		204	1,694	{1/2 M}
11.	Short term loans and advances				
	Sundry Advances				
	H Ltd.			520	{1/2 M}

Working Notes:

Share holding pattern of S Ltd.

Shares as on 31st March, 2017 (Includes bonus shares issued on 1st January, 2017)	480 lakh shares (4,800 lakhs/Rs. 10)
H Ltd.'s holding as on 1st April, 2016	180 lakhs

Add: Bonus received on 1st January, 2017	108 lakhs (180 / 5 × 3)	
Total H Ltd.'s holding as on 31st March, 2017	288 lakhs i.e. 60 % [288/480×100]	{1/2 M}
Minority Shareholding	40%	{1/2 M}

1. S Ltd.'s General Reserve Account

	Rs. in lakhs		Rs. in lakhs
To Bonus to Equity	1,800	By Balance b/d	3,000
Shareholders			
To Balance c/d	1,380	By Profit and Loss A/c	180
		(Balancing figure)	
	3,180		3,180

{1 M}

2. S Ltd.'s Profit and Loss Account

	Rs. in lakhs		Rs. in lakhs
To General Reserve [WN 1]	180	By Balance b/d	1,200
To Dividend paid		By Net Profit for the	
(20% on Rs.3,000 lakhs)	600	year*	1,200
To Balance c/d	1,620	(Balancing figure)	
	2,400		2,400

{1 M}

*Out of Rs. 1,200 lakhs profit for the year, Rs. 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	Rs. in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve Rs. 108 + Profit and Loss Account Rs. 612)	
Share of Minority Shareholders (40%)	480

{1 M}

Note: The question can also be solved by taking Rs. 1,080 lakhs as post acquisition Profit and Loss balance and Rs. 180 lakhs as post acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	Rs. in lakhs
General Reserve on the date of acquisition less bonus shares	1,200
(Rs. 3,000 – Rs. 1,800)	
Profit and loss account on the date of acquisition less dividend paid	600
(Rs. 1,200 – Rs. 600)	
	1,800

{1 M}

H Ltd.'s share = 60% of Rs. 1,800 lakhs = Rs. 1,080 lakhs
Minority interest = Rs. 1,800 – Rs. 1,080 = Rs. 720 lakhs

5. Calculation of capital reserve

	Rs. in lakhs
Paid up value of shares held (60% of Rs.4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (Rs. 3,000 – Rs. 360)	(2,640)
Capital reserve	1,320

{1 M}

6. Calculation of Minority Interest

	Rs. in lakhs
40% of share capital (40% of Rs. 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

{1 M}

7. Unrealized profit in respect of inventory

Rs. 100 lakhs x $\frac{25}{125}$ = Rs. 20 lakhs {1 M}

Answer: 6

(a) 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. **(1 M)**

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

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

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

Workman's Share to Secured Assets = 80,00,000 **(1 M)**

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

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

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) Analysis :-

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

Signification influence

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 :

(d) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Raj, a relative of key management personnel should be identified as relative as at the closing date i.e. on 31.3.2017. **{5 M}**

Answer:

(e) Calculation of ESOP cost to be amortized

	2015-2016	**2016-2017**
Fair value of options per share	Rs. 18 **{1/4 M}**	Rs. 18 **{1/4 M}**
No. of options expected to vest under the scheme	93,000 (930 x 100) **{3/4 M}**	88,000 (880 x 100) **{3/4 M}**
Fair value of options	Rs. 16,74,000 **{3/4 M}**	Rs. 15,84,000 **{3/4 M}**
Value of options recognized as expenses	(Rs. 16,74,000 / 2) 8,37,000 **{3/4 M}**	(Rs.15,84,000 – Rs. 8,37,000) 7,47,000 **{3/4 M}**

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