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

DATE: 04.08.2020 MAXIMUM MARKS: 100 TIMING: 3¼ Hours

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)

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

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)**	**1M**
	Work certified	500	
	Work not certified	105	
		605	

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) **1M**

= (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.

(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:

(b)

- 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**

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- 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:

(c) According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

(i) There is a present obligation arising out of past events but not recognised as provision.

(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

(iii) The possibility of an outflow of resources embodying economic benefits is not remote.

(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognised as provision. **1½M**

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made.
For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under: **1½M**

Expected loss in next ten cases = 30% of Rs. 1,20,000 + 10% of Rs. 2,00,000
= Rs. 36,000 + Rs. 20,000
= Rs. 56,000 **¾M**

Expected loss in remaining five cases = 30% of Rs. 1,00,000 + 20% of Rs. 2,10,000
= Rs. 30,000 + Rs. 42,000
= Rs. 72,000 **¾M**

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of Rs. 9,20,000 (Rs. 56,000 × 10 + Rs. 72,000 × 5) as contingent liability. **½M**

Answer:

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

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

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

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

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

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

Answer: 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 Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	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) Dr. ESOS outstanding A/c [(26,25,000/87,500) x 85,000] Dr. 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)	17,00,000 25,50,000		8,50,000 34,00,000	¾M
31.3.20X5	ESOS outstanding A/c Dr. 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)	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 the year	28,50,000 x 1/2 = Rs. 14,25,000	27,30,000 x 2/3 = Rs. 18,20,000	Rs. 26,25,000	1M
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)

Liquidators' Final Statement of Account

Receipts	Rs.	Payments	Rs.
Cash	4,13,000	Return to contributors:	
Realisation from:		Arrears of Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs. 5 per		Calls in advance	5,000
equity share of Rs. 50 each (Rs. 5 × 1,000) See WN below	5,000	Equity shareholders of Rs. 100 each (3,000 × Rs. 30)	90,000
	4,28,000		4,28,000

(7 Items × ½ Mark)

Working Note:

(i)

	Rs.
Cash account balance	4,13,000
Less: Payment for dividend 33,000	
Preference shareholders 3,00,000	
Calls in advance 5,000	(3,38,000)
	75,000
Add: Calls in arrears	10,000
	85,000
Add: Amount to be received from equity shareholders of Rs. 50 each (1,000 × 20)	20,000
Amount disposable	1,05,000

(2M)

Number of equivalent equity shares:

3,000 shares of Rs. 100 each = 6,000 shares of Rs. 50 each

1,000 shares of Rs. 50 each = 1,000 shares of Rs. 50 each

= 7,000 shares of Rs. 50 each **(1M)**

Final payment to equity shareholders = $\frac{\text{Amount left for distribution}}{\text{Total number of equivalent equity shares}}$

= Rs. 1,05,000 / 7,000 shares = Rs. 15 per share to equity shareholders of Rs. 50 each. **(1M)**

Therefore for equity shareholders of Rs. 100 each $\left(15 \times \frac{100}{50}\right)$ **(1M)**

= Rs. 30 per share to equity shareholders of Rs. 100 each.

Calls in advance must be paid first, so as to pay the shareholders on pro rata basis. **(½M)**

Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share. **(1M)**

Answer: 3

In the Books of Vayu Ltd.
Realisation Account

	Rs.		Rs.
To Sundry Assets	5,70,000	By Retirement Gratuity Fund	20,000
To Preference		By Trade payables	80,000
Shareholders	10,000	By Hari Ltd. (Purchase	
(Premium on Redemption)		Consideration)	5,30,000
To Equity Shareholders			
(Profit on Realisation)	50,000		
	6,30,000		6,30,000

6 items = ½M

Equity Shareholders Account

	Rs.		Rs.
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital	3,00,000
		By General Reserve	70,000
		By Realisation Account (Profit on Realisation)	50,000
	4,20,000		4,20,000

4 items = ½M

Preference Shareholders Account

	Rs.		Rs.
To 9% Preference Shares of Hari Ltd.	1,10,000	By Preference Share Capital	1,00,000
		By Realisation Account (Premium on Redemption of Preference Shares)	10,000
	1,10,000		1,10,000

3 items = ½M

Hari Ltd. Account

	Rs.		Rs.
To Realisation Account	5,30,000	By 9% Preference Shares	1,10,000
		By Equity Shares	4,20,000
	5,30,000		5,30,000

3 items = ½M

In the Books of Hari Ltd.

Journal Entries

		Dr.	Cr.	
		Rs.	Rs.	
Business Purchase A/c	Dr.	5,30,000		½M
To Liquidators of Vayu Ltd. Account			5,30,000	
(Being business of Vayu Ltd. taken over)				
Goodwill Account	Dr.	50,000		1M
Building Account	Dr.	1,50,000		
Machinery Account	Dr.	1,60,000		
Inventory Account	Dr.	1,57,500		
Trade receivables Account	Dr.	1,00,000		
Bank Account	Dr.	20,000		
To Retirement Gratuity Fund Account			20,000	
To Trade payables Account			80,000	
To Provision for Doubtful Debts Account			7,500	
To Business Purchase A/c			5,30,000	
(Being Assets and Liabilities taken over as per agreed valuation).				
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000		½M
To 9% Preference Share Capital A/c			1,10,000	
To Equity Share Capital A/c			4,00,000	
To Securities Premium A/c			20,000	
(Being Purchase Consideration satisfied as above).				

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

	Particulars	Notes	Rs.	
	Equity and Liabilities			
1	**Shareholders' funds**			
A	Share capital	1	16,10,000	}½M
B	Reserves and Surplus	2	90,000	}½M
2	**Non-current liabilities**			
A	Long-term provisions	3	70,000	}½M
3	**Current liabilities**			
A	Trade Payables		2,10,000	}½M
B	Short term provision		7,500	}½M
	Total		**19,87,500**	
	Assets			
1	**Non-current assets**			
A	Fixed assets			
	Tangible assets	4	11,10,000	}½M
	Intangible assets	5	1,00,000	}½M
2	**Current assets**			
A	Inventories		4,07,500	}½M
B	Trade receivables	6	3,00,000	}½M
C	Cash and cash equivalents		70,000	}½M
	Total		**19,87,500**	

Notes to accounts

			Rs.	
1	**Share Capital**			
	Equity share capital			
	1,40,000 Equity Shares of Rs. 10 each fully paid(Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000	
	Preference share capital			
	2,100 9% Preference Shares of Rs. 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000	
	Total		**16,10,000**	}½M
2	**Reserves and Surplus**			
	Securities Premium		20,000	

	General Reserve		70,000	
	Total		**90,000**	}½M
3	**Long-term provisions**			
	Gratuity fund		70,000	
	Total		**70,000**	}½M
4	**Short term Provisions**			
	Provision for Doubtful Debts		7,500	
	Total		**7,500**	}½M
5	**Tangible assets**			
	Buildings		4,50,000	
	Machinery		6,60,000	
	Total		**11,10,000**	}½M
6	**Intangible assets**			
	Goodwill		1,00,000	
	Total		**1,00,000**	}½M
7	**Trade receivables**		3,00,000	

Working Notes:

Purchase Consideration:	**Rs.**
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
Less: Liabilities:	6,30,000
Retirement Gratuity	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000	
Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

2M

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
		37,95,160
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	1,90,000
II.	Profit on sale of investment	2,25,800
III.	Rent received	72,000
		4,87,800
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	22,95,360
		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
VI.	Statutory (law) expenses	38,000
VII.	Postage and telegrams	65,340
VIII.	Preliminary expenses*	30,000
		5,70,340

{1 M} (Schedule 13) **{2 M}** (Schedule 14) **{1 M}** (Schedule 15) **{2 M}** (Schedule 16)

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 M}

*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 Shareholders	1,800	By Balance b/d	3,000
To Balance c/d	1,380	By Profit and Loss A/c (Balancing figure)	180
	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 (20% on Rs.3,000 lakhs)	600	By Net Profit for the year* (Balancing figure)	1,200
To Balance c/d	1,620		
	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) 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

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:

(b) 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 **}1M**

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

Answer:

(c) 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 :

(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) With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier.

a. The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation or **(2½ M)**

b. The enterprise's board of directors or similar governing body has both
   (i) approved a detailed, formal plan for the discontinuance and
   (ii) made an announcement of the plan. **(2½ M)**

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