(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 19.04.2021 **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) 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 =

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

$$\frac{(\text{Rs. } 32\times10{,}00{,}1000)+(\text{Rs. } 25\times2{,}00{,}000)}{10{,}00{,}000 + 2{,}00{,}000}$$

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

2. Computation of adjustment factor

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

$= \frac{\text{Rs. } 32}{\text{Rs. } 30.83}$ =1.04 (approx.) **(1 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
(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. **(1 M)**

Case (i)
The sale is complete but delivery has been postponed at buyer"s request. M/s Paper Products Ltd. should recognize the entire sale of Rs. 60,000 for the year ended 31st March, 2015. **(½ M)**

Case (ii)
20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,20,000 (80% of Rs. 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party. **(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. 1,20,000 as the time period for rejecting the goods had expired. **(1 M)**

Case (iv)
Trade discounts given should be deducted in determining revenue. Thus Rs. 39,000 should be deducted from the amount of turnover of Rs. 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be Rs. 7,41,000. **(1 M)**

Thus total revenue amounting Rs. 10,41,000 (60,000 + 1,20,000 + 1,20,000 + 7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd. **(½ M)**

Answer:

(c) (i) Determination of nature of lease

Fair value of asset Rs. 7,00,000

Unguaranteed residual value Rs. 70,000

Present value of residual value at the end of 4th Year = Rs. 70,000 × 0.683
= Rs. 47,810 **(½ M)**

Present value of lease payment recoverable = Rs. 7,00,000 - Rs. 47,810
= Rs. 6,52,190 **(1 M)**

The percentage of present value of lease payment to fair value of the asset is
= (Rs. 6,52,190/Rs. 7,00,000) × 100
= 93.17% **(½ M)**

Since it substantially covers the major portion of lease payments and life of the asset, the lease constitutes a finance lease.

(ii) ● Calculation of Unearned finance income
Annual lease payment = Rs. 6,52,190 / 3.169
= Rs. 2,05,803 (approx.) **(1 M)**

● Gross investment in the lease
= Total minimum lease payments + unguaranteed residual value.
= (Rs. 2,05,803 x 4) + Rs. 70000
= Rs. 8,23,212 + Rs. 70,000 = Rs. 8,93,212 **(1 M)**

● Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.
= Rs. 8,93,212 – Rs. 7,00,000
(Rs. 6,52,190 + Rs. 47,810)
= Rs. 1,93,212 **(1 M)**

Answer:

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

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 2:

(a) **Journal Entries in the Books of Z Ltd.**

			Dr. Rs.	Cr. Rs.	
(i)	Equity Share Capital (Rs. 10 each) A/c To Equity Share Capital (Rs. 5 each) A/c To Reconstruction A/c (Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)	Dr.	50,00,000	 25,00,000 25,00,000	**(1/2 M)**
(ii)	9% Preference Share Capital (Rs. 100 each) A/c To 10% Preference Share Capital (Rs. 50 each) A/c To Reconstruction A/c (Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)	Dr.	20,00,000	 10,00,000 10,00,000	**(1/2 M)**

(iii)	10% Secured Debentures A/c Trade payables A/c Interest on Debentures Outstanding A/c Bank A/c To 12% Debentures A/c To Reconstruction A/c (Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)	Dr. Dr. Dr. Dr.	9,60,000 1,00,000 96,000 1,00,000	 6,78,000 5,78,000	**(1/2 M)**
(iv)	10% Secured Debentures A/c Trade Payables Interest on debentures outstanding A/c Bank A/c To 12% debentures A/c To Reconstruction A/c (Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)	Dr. Dr. Dr. Dr.	6,40,000 60,000 64,000 60,000	 4,42,000 3,82,000	**(1/2 M)**
(v)	Trade payables A/c To Reconstruction A/c (Being remaining trade payables sacrificed 50% of their claim.)	Dr.	1,70,000	 1,70,000	**(1/2 M)**
(vi)	Directors' Loan A/c To Equity Share Capital (Rs. 5) A/c To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of Rs. 5 each as per scheme of reconstruction.)	Dr.	1,00,000	 40,000 60,000	**(1/2 M)**
(vii)	Reconstruction A/c To Bank A/c (Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)	Dr.	15,000	 15,000	**(1/2 M)**
(viii)	Bank A/c To Reconstruction A/c (Being refund of fees by directors credited to reconstruction A/c)	Dr.	1,00,000	 1,00,000	**(1/2 M)**
(ix)	Reconstruction A/c To Bank A/c (Being payment of reconstruction expenses)	Dr.	15,000	 15,000	**(1/2 M)**
(x)	Provision for Tax A/c To Bank A/c To Reconstruction A/c (Being payment of tax liability in full settlement against provision for tax)	Dr.	1,00,000	 75,000 25,000	**(1/2 M)**
(xi)	Land and Building A/c To Reconstruction A/c (Being appreciation in value of Land & Building recorded)	Dr.	2,00,000	 2,00,000	**(1/2 M)**
(xii)	Reconstruction A/c To Goodwill A/c To Patent A/c	Dr.	42,10,000	 10,00,000 5,00,000	

	To Profit and Loss A/c To Discount on issue of Debentures A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Trade Investment A/c To Inventory A/c To Trade Receivables A/c (Being writing off of losses and reduction in the value of assets as per scheme of reconstruction)		14,60,000 1,00,000 6,50,000 1,00,000 50,000 2,50,000 1,00,000
(xiii)	Reconstruction A/c Dr. To Capital Reserve A/c (Being balance of reconstruction A/c transfer to Capital Reserve)	7,75,000	7,75,000

(2 M)

(1/4 M)

Bank Account

		Rs.			Rs.
To	Reconstruction (Y)	**1,00,000**	By	Balance b/d	**1,00,000**
To	Reconstruction(Z)	**60,000**	By	Reconstruction A/c	**15,000**
To	Reconstruction A/c (refund of earlier fees by directors)	**1,00,000**		(capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	**15,000**
			By	Provision for tax A/c (tax paid)	**75,000**
			By	Balance c/d	**55,000**
		2,60,000			2,60,000

(8 item x 1/4 M)

Reconstruction Account

		Rs.			Rs.
To	Bank (penalty)	**15,000**	By	Equity Share	
To	Bank (reconstruction expenses)	**15,000**		Capital A/c	**25,00,000**
To	Goodwill	**10,00,000**	By	9% Pref. Share	
To	Patent	**5,00,000**		Capital A/c	**10,00,000**
To	P & L A/c	**14,60,000**	By	Mr. Y (Settlement)	**5,78,000**
To	Discount on issue of debentures	**1,00,000**	By	Mr. Z (Settlement)	**3,82,000**
To	P & M	**6,50,000**	By	Trade Payables A/c	**1,70,000**
To	Furniture and Fixtures	**1,00,000**	By	Director's loan	**60,000**
To	Trade investment	**50,000**	By	Bank	**1,00,000**
To	Inventory	**2,50,000**	By	Provision for tax	**25,000**
To	Trade Receivables	**1,00,000**	By	Land and Building	**2,00,000**
To	Capital Reserve (bal. fig.)	**7,75,000**			
		50,15,000			50,15,000

(21 item x 1/4 M)

Answer:

(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	--
(b)	Where charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,410	241
(c)	Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,280	512
(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 647	452.90
		Total	1,205.90

(5 M)

Answer 3:

(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

{$1^{1/2}$ 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
II. Assets		
(1) Non-current assets		
(a) Fixed assets		

11 items x ½ M

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**	**5 items**
4.	**Tangible Assets**			**x ½ M**
	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**	

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	**}¾ M**
	Other income	14	4,87,800	**}¾ M**
	Total		42,82,960	
II.	Expenditure			
	Interest expended	15	22,95,360	**}¾ M**
	Operating expenses	16	5,70,340	**}¾ M**
	Provisions and contingencies			
	(4,50,000+2,00,000+2,00,000)		8,50,000	**}¾ M**
	Total		37,15,700	
III.	Profits/Losses			
	Net profit for the year		5,67,260	**}¾ M**
	Profit brought forward		Nil	**}¾ M**
			5,67,260	
IV.	Appropriations			
	Transfer to statutory reserve (25% of 5,67,260)		1,41,815	**}¾ M**
	Proposed dividend		50,000	**}¾ M**
	Balance carried over to balance sheet		3,75,445	**}¾ M**
			5,67,260	

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

		Year ended 31.3.20X2 (Rs.)	
	Schedule 13 – Interest Earned		
I.	Interest/discount on advances/bills (Refer W.N.)	37,95,160	}½ M
		37,95,160	
	Schedule 14 – Other Income		
I.	Commission, exchange and brokerage	1,90,000	}½ M
II.	Profit on sale of investment	2,25,800	}½ M
III.	Rent received	72,000	}½ M
		4,87,800	
	Schedule 15 – Interest Expended		
I.	Interests paid on deposits	22,95,360	}½ M
		22,95,360	
	Schedule 16 – Operating Expenses		
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000	}½ M
II.	Rent, taxes paid	1,00,000	}½ M
III.	Depreciation on assets	40,000	}½ M
IV.	Director's fee, allowances and expenses	35,000	}½ M
V.	Auditor's fee	12,000	}½ M
VI.	Statutory (law) expenses	38,000	}½ M
VII.	Postage and telegrams	65,340	}½ M
VIII.	Preliminary expenses*	30,000	}½ M
		5,70,340	

Working Note:

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

4 items = ¼ M

Answer:

(b)

In the books of Rebuilt Ltd.

Journal Entries

	Particulars		Debit (Rs.)	Credit (Rs.)	
1.	Equity share capital A/c (Rs. 50) To Equity share capital A/c (Rs. 2.50) To Capital reduction A/c (Being equity capital reduced to nominal value of Rs. 2.50 each)	Dr.	7,50,000	 37,500 7,12,500	{1/2 M}
2.	Bank A/c To Equity share capital (Being 3 right shares against each share was issued and subscribed)	Dr.	1,12,500	 1,12,500	{1/2 M}
3.	7% Preference share capital A/c (Rs. 50) Capital reduction A/c To 5% Preference share capital (Rs. 10) To equity share capital (Rs. 50) (Being 7% preference shares of Rs. 50 each	Dr. Dr.	6,00,000 60,000	 4,80,000 1,80,000	{1 M}

	converted to 5% preference shares of Rs. 10 each and also given to them 6 equity shares for every share held)				
4.	Loan A/c To 5% Preference share capital A/c To Equity share capital A/c (Being loan to the extent of Rs. 1,50,000 converted into share capital)	Dr.	1,50,000	 1,20,000 30,000	{1/2 M}
5.	Bank A/c To Equity share application money A/c (Being shares subscribed by the directors)	Dr.	1,00,000	 1,00,000	{1/2 M}
6.	Equity share application money A/c To Equity share capital A/c (Being application money transferred to capital A/c)	Dr.	1,00,000	 1,00,000	{1/2 M}
7.	Loan A/c To Bank A/c (Being loan repaid)	Dr.	2,00,000	 2,00,000	{1/2 M}
8.	Capital reduction A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal.fig.) (Being losses and assets written off to the extent required)	Dr.	6,52,500	 4,51,000 35,000 1,66,500	{1 M}

Answer 5:

In the Books of Vayu Ltd.
Realisation Account

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

6 items = ½ M

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 = ½ M

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	3 items = ½ M
	1,10,000		1,10,000	

Hari Ltd. Account

	Rs.		Rs.	
To Realisation Account	5,30,000	By 9% Preference Shares	1,10,000	
		By Equity Shares	4,20,000	3 items = ½ M
	5,30,000		5,30,000	

In the Books of Hari Ltd.
Journal Entries

		Dr. Rs.	Cr. Rs.	
Business Purchase A/c	Dr.	5,30,000		
To Liquidators of Vayu Ltd. Account			5,30,000	½ M
(Being business of Vayu Ltd. taken over)				
Goodwill Account	Dr.	50,000		
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	1 M
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		
To 9% Preference Share Capital A/c			1,10,000	
To Equity Share Capital A/c			4,00,000	½ M
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	½ M
B	Reserves and Surplus	2	90,000	½ M
2	**Non-current liabilities**			
A	Long-term provisions	3	70,000	½ M
3	**Current liabilities**			
A	Trade Payables		2,10,000	½ M
B	Short term provision		7,500	½ M

	Total		**19,87,500**	
	Assets			
1	**Non-current assets**			
A	Fixed assets			
	Tangible assets	4	11,10,000	}½ M
	Intangible assets	5	1,00,000	}½ M
2	**Current assets**			
A	Inventories		4,07,500	}½ M
B	Trade receivables	6	3,00,000	}½ M
C	Cash and cash equivalents		70,000	}½ M
	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**	}½ M
2	**Reserves and Surplus**			
	Securities Premium		20,000	
	General Reserve		70,000	
	Total		**90,000**	}½ M
3	**Long-term provisions**			
	Gratuity fund		70,000	
	Total		**70,000**	}½ M
4	**Short term Provisions**			
	Provision for Doubtful Debts		7,500	
	Total		**7,500**	}½ M
5	**Tangible assets**			
	Buildings		4,50,000	
	Machinery		6,60,000	
	Total		**11,10,000**	}½ M
6	**Intangible assets**			
	Goodwill		1,00,000	
	Total		**1,00,000**	}½ M
7	**Trade receivables**		3,00,000	

Working Notes:

Purchase Consideration:	**Rs.**	
Goodwill	50,000	
Building	1,50,000	
Machinery	1,60,000	2M
Inventory	1,57,500	
Trade receivables	92,500	

Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
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

Answer 6: (Answer any four from the following)-

(a) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include: **{1/2 M}**

(i) Gradual or evolutionary phasing out of a product line or class of service; **{1 M}**

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business; **{1 M}**

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and **{1 M}**

(iv) Closing of a facility to achieve productivity improvements or other cost savings. **{1 M}**

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries. **{1/2 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) **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}**

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:

(e) 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 **¾ M**

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**

__**__