(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 20.09.2021 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) As per AS 4 (Revised), adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. {2 M}

In the given case, since Raj Ltd. was sued by a competitor for infringement of a trademark during the year 20X1-X2 for which the provision was also made by it, the decision of the Court on 18th May, 20X2, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Raj Ltd. should adjust the provision upward by Rs. 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor. {1 M}

Had the judgment of the Court been delivered on 1st June, 20X2, it would be considered as an event occurring after the approval of the financial statements which is not covered by AS 4 (Revised). In that case, no adjustment in the financial statements of 20X1-X2 would have been required. {2 M}

Answer:

(b) **Statement of Profit and Loss for the year ended 31st March, 2019 (Extract)**

		Rs.
Profit before depreciation and taxes		6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)		(3,10,000)
Profit before taxes (A)		3,30,000
Less: Tax expense (B)		
Current tax (W.N.1) (3,30,000 x 40%)	1,32,000	
Deferred tax (W.N.2)	NIL	(1,32,000)
Profit after tax (A-B)		1,98,000

{2 M}

Working Notes:

1. Computation of taxable income

	Amount (Rs.)
Profit before depreciation and tax	6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)	(3,10,000)
Taxable income	3,30,000
Tax on taxable income @ 40%	1,32,000

{1 M}

2. Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	Transactions	Analysis	Nature of difference	Effect	Amount (Rs.)
(i)	Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	(2,80,000 - 1,90,000) x 40% = (36,000)
(ii)	Depreciation on new machinery	Due to allowance of full amount as expenditure under IT Act, tax payable in the earlier years is less.	Timing difference	Creation of DTL	(1,20,000 – 30,000) x 40% = 36,000
	Net impact				NIL

{1 M} {1 M}

Answer:

(c) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. {2 M}

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments. {2 M}

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong. {1 M}

Answer:

(d) As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed program design, coding and testing. In this case, Rs. 90,000 would be recorded as an expense (Rs. 50,000 for completion of detailed program design and Rs. 40,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = Rs. 1,00,500. Packing cost Rs. 16,500 should be recognized as expenses and charged to P & L A/c. {5 M}

Answer 2:

(a) **In the books of Mohan Ltd.**

(i) Realisation Account

	Rs.		Rs.
To Goodwill	**10,000**	By 10% Debentures	**2,00,000**
To Property, plant and equipment	**3,40,000**	By Interest accrued on debentures	**20,000**
To Inventory	**80,000**	By Trade payables	**1,50,000**
To Trade receivables	**1,10,000**	By Ravi Ltd. (Purchase consideration) (W.N. 1)	**1,65,400**
To Bank (20,000 - 5,000)	**15,000**	By Equity shareholders A/c (loss on realization) (Bal. fig.)	**25,000**
To Preference share holders A/c (W.N.2)	**5,400**		
	5,60,400		5,60,400

{11 Item x 1/4 Bold= 2.75 M}

(ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	**1,70,000**	By Equity Share capital	**3,00,000**
To Expenses*	**5,000**		
To Equity shares in Ravi Ltd.	**1,00,000**		
To Realization A/c	**25,000**		
	3,00,000		3,00,000

{5 Item x 1/4 Bold= 1.25 M}

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

(i) Bank Account

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		1,09,600

{2 M}

(ii) Balance Sheet as at 31st March, 2020

Particulars	**Note No.**	**Rs.**
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	**4,00,000**
(2) Non-Current Liabilities		
Long-term borrowings	2	**2,00,000**
Total		**6,00,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		**3,08,400**
(2) Current assets		
(a) Inventories		**72,000**
(b) Trade receivables		**1,10,000**
(c) Cash and cash equivalents		**1,09,600**
Total		**6,00,000**

{8 Item x 1/2 Bold= 4 M}

Notes to Accounts

		Rs.
1.	Share Capital	

	Authorised share capital		
	40,000 equity shares of Rs. 10 each	4,00,000	
	Issued and Subscribed		
	40,000 shares of Rs. 10 each fully paid up	**4,00,000**	}{1/2 M}
	(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)		
2.	**Long Term Borrowings**		
	10% Debentures	**2,00,000**	}{1/2 M}

Working Notes:

1. Calculation of Purchase consideration

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

{1 M}

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		**Rs.**
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

{1 M}

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

{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		6.00	}{1 M}

months	
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 3:

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1

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

{12 Item x 1/2 Bold= 6 M}

Notes to Accounts

			(Rs. in lacs)	(Rs. in lacs)
1.	**Share Capital**			
	Authorized share capital			15,000
	Equity shares of Rs. 10 each, fully paid up			
	Issued and Subscribed:			
	Equity shares of Rs. 10 each, fully paid up			12,000
	Total			**12,000** }{1/2 M}
2.	**Reserves and surplus**			
	Capital Reserve (Note 5)		1,320	
	General Reserve (2,784 + 108)		2,892	
	Profit and Loss Account:			
	H Ltd. Less: Dividend wrongly credited 360	2,715		
	Unrealized Profit 20	(380)		
		2,335		
	Add: Share in S Ltd.'s Revenue profits	612	2,947	
	Total			**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		
	Total			**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	
	Dividend payable				
	H Ltd.			1,200	
	Total			**1,687**	}{1/2 M}
6.	**Property, plant and equipment**				
	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		
	Total			**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.	**Short term loans and advances**				
	Sundry Advances			520	
	Total			**520**	}{1/2 M}
10.	**Cash and cash equivalents**				
	Cash and Bank Balances			1,694	
	Total			**1,694**	}{1/2 M}
11.	**Other current assets**				
	Bills Receivable				
	H Ltd.	Rs. 360			
	S Ltd.	Rs. 199			
		Rs. 559			
	Less: Mutual Owing	Rs. (45)			
	Total			**514**	}{1/2 M}

Share holding pattern of S Ltd.

Shares as on 31st March, 20X1 (Includes bonus shares issued on 1st January, 20X1)	480 lakh shares (4,800 lakhs/ Rs. 10)	{1/2 M}
H Ltd.'s holding as on 1st April, 20X0	180 lakhs	
Add: Bonus received on 1st January, 20X1	108 lakhs (180 / 5 × 3)	
Total H Ltd.'s holding as on 31st March, 20X1	288 lakhs i.e.60 % [288/480×100]	
Minority Shareholding	40%	

Working Notes:

1. S Ltd.'s General Reserve Account

	Rs. in lakhs		Rs. in lakhs
To Bonus to equity shareholders (WN-8)	1,800	By Balance b/d	3,000
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

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

{1 M}

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

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.

{1 M}

4. Calculation of Capital Profits

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

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

{1 M}

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

$$Rs.\ 100\ lakhs \times \frac{25}{125} = Rs.\ 20\ lakhs$$

{1 M}

8. Computation of bonus to equity shareholders

	Rs. in lakhs
Share as on 31 March 20X1 including bonus share issued on 1 January 20X1	4,800
Or we can say these are 1 + $\frac{3}{5}$ *Or* $\frac{8}{5}$	
i.e. Shares before bonus issue should have been $\frac{4{,}800}{8/5}$ =	3,000
Accordingly, bonus issue would be (4,800 - 3,000)	1,800

{1 M}

Answer 4:

(a)

Realization Account

Particulars		**Rs.**	**Particulars**			**Rs.**
To Sundry Assets: -			By	Creditors		**15,700**
Debtors	15,850		By	Employee's Provident Fund		**6,300**
Stock	25,200					
Prepaid Expenses	800		By	Bank A/c:		
Plant & Machinery	20,000			Joint Life Policy	4,500	
Patents	8,000	**69,850**		Debtors	10,800	
To Bank-Creditors: (Rs. 15,700 – Rs. 3,200 - Rs. 400)		**12,100**		Stock	15,600	
To Bank A/c Employee's (P.F)		**6,300**		Plant and Machinery	12,000	
To Bank A/c (expenses)		**1,500**		Patents 60% of		
				(Rs. 8,000 – Rs. 5,000)	1,800	**44,700**
			By	Loss transferred to:		
				A's Capital A/c	9,220	
				B's Capital A/c	6,915	
				C's Capital A/c	4,610	
				D's Capital A/c	2,305	**23,050**
		89,750				89,750

{8 Item x 3/4 Bold= 6 M}

Capital Accounts

Particulars	**A (Rs.)**	**B (Rs.)**	**C (Rs.)**	**D (Rs.)**	**Particulars**	**A (Rs.)**	**B (Rs.)**	**C (Rs.)**	**D (Rs.)**
To Bal. b/d	—	—	**3,200**	**8,415**	By Bal. b/d	**40,000**	**20,000**	—	—
To Realization					By Bank				
A/c	**9,220**	**6,915**	**4,610**	**2,305**	(Realization loss)	**9,220**	**6,915**	**4,610**	—
To D's Capital					By Bank				
(Deficiency)	**5,360**	**2,680**	—	—	(Recovery)	—	—	—	**2,680**
To Bank	**34,640**	**17,320**	—	—	By A's Capital	—	—	—	**5,360**

{27 Item x 1/4 Bold= 6.75 M}

					(2/3)				
					By B's Capital (1/3)	—	—	—	**2,680**
					By Bank A/c		—	**3,200**	—
	49,220	**26,915**	**7,810**	**10,720**		**49,220**	**26,915**	**7,810**	**10,720**

Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	535	By Realization A/c	12,100
To Realization A/c	44,700	By Realization A/c	6,300
To A's Capital A/c	9,220	By Realization A/c	1,500
To B's Capital A/c	6,915	By A's Capital A/c	34,640
To D's Capital A/c	2,680	By B's Capital A/c	17,320
To C's Capital A/c (4,610 + 3,200)	7,810		
	71,860		71,860

{$1^{1/2}$ M}

Working Note

D's loss will be borne by A and B only because only solvent partners having credit balance has to bear the loss on account of insolvency. C will bring his share of loss in cash. {3/4 M}

Answer:

(b) Statement showing Provisions on various performing and non-performing assets

	Amount Rs. in lakhs	% of provision	Provision Rs. in lakhs	
Standard	7,000	0.40	**28**	{1/2 M}
Sub-standard	3,000	15	**450**	{1/2 M}
Doubtful (less than one year)				
On secured portion	500	25	**125**	{1/2 M}
On unsecured portion	500	100	**500**	{1/2 M}
Doubtful (more than one year but less than three years)				
On secured portion	300	40	**120**	{1/2 M}
On unsecured portion	200	100	**200**	{1/2 M}
Doubtful Unsecured (more than three years)	300	100	**300**	{1/2 M}
Total provision			**1,723**	{$1^{1/2}$ M}

Answer 5:

(a)

		Rs. in lakhs	Rs. in lakhs	
(i) Capital Funds - Tier I:				
Equity Share Capital			480,00	
Statutory Reserve			280,00	
Capital Reserve (arising out of sale of assets)			9,30	
			769,30	{1 M}
Capital Funds - Tier II:				
Capital Reserve (arising out of revaluation of assets)		280		
Less: Discount to the extent of 55%		(154)	**1,26**	{1 M}
			770,56	{1 M}
(ii) Risk Adjusted Assets				
Funded Risk Assets	Rs. in lakhs	Percentage weight	Amount Rs. in lakhs	

Cash Balance with RBI	4,80	0	—
Balances with other Banks	12,50	20	2,50
Claims on banks	28,50	20	5,70
Other Investments	782,50	100	782,50
Loans and Advances:			
(i) guaranteed by government	128,20	0	—
(ii) guaranteed by public sector			
undertakings of Central Govt.	702,10	0	—
(iii) Others	52,02,50	100	52,02,50
Premises, furniture and fixtures	1,82,00	100	1,82,00
Other Assets	2,01,20	100	2,01,20
			63,76,40 }{4 M}

Off-Balance Sheet Item	Rs. in	Credit lakhs Conversion Factor	
Acceptances, Endorsements and Letters of credit	37,02,50	100	37,02,50 }{1 M}
			100,78,90

Risk Weighted Assets Ratio: $\dfrac{Capital\ funds\ (Tier\ I\ \&\ Tier\ II)}{Risk\ Adjusted\ Assets + off\ Balance\ sheet\ items} \times 100$ **}{1 M}**

$$= \frac{7,69,30 + 1,26}{63,76,40 + 37,02,50}$$

Capital Adequacy Ratio $= \dfrac{770,56}{100,78,90} \times 100 = 7.65\%$ **}{1 M}**

Answer:

(b) Since the exercise price varies depending on the outcome of a performance condition which is not a market condition, the effect of that performance condition (i.e. the possibility that the exercise price might be Rs. 40 and the possibility that the exercise price might be Rs. 30) is not considered when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcomes of that performance condition at the end of every year based on the information available at that point of time. **{1/2 M}**

Calculation of compensation expense to be charged every year

Year	Calculation	Expense for the year (Rs.)	Cumulative expense (Rs.)
1	10,000 x Rs. 16 x 1/3	53,333	**53,333** }{1½ M}
2	10,000 x Rs. 16 x 2/3	53,334	**1,06,667** }{1½ M}
3	10,000 x Rs. 12 x 3/3	13,333	**1,20,000** }{1½ M}

Answer:

(c)

Particulars	I	II	III	Total
No. of shares	30,000	80,000	4,00,000	5,10,000
Equity share capital (@ Rs. 100/50/10)	30,00,000	40,00,000	40,00,000	1,10,00,000
Paid up share capital (A)	24,00,000	20,00,000	40,00,000	84,00,000
Loss due to Liquidation (B) (Rs. 60,00,000 in the ratio of 3:4:4)	(16,36,364)	(21,81,818)	(21,81,818)	(60,00,000)
Surplus amount distributed among different categories of shareholders (A) – (B)	**7,63,636 {1 M}**	**(1,81,818) {1 M}**	**18,18,182 {1 M}**	**24,00,000 {1 M}**

Note: Shareholders of category I and III will get surplus amount, while category II shareholders will pay Rs. 1,81,818. {1 M}

Answer 6:

(a) In the given case, Milk Ltd. concurrently agreed to repurchase the same goods from Curd Ltd. on 1st Feb., 2017. Also the re-selling price is pre-determined and covers purchasing and holding costs of Curd Ltd. Hence, the transaction between Milk Ltd. and Curd Ltd. on 1st Feb., 2017 should be accounted for as financing rather than sale. The resulting cash flow of Rs. 9.60 lakhs received by Milk Ltd., cannot be considered as revenue as per AS 9 "Revenue Recognition". {2 M}

Journal Entries in the books of Milk Ltd.

		(Rs. in lakhs)		
01.02.2017	Bank Account Dr.	9.60		{1 M}
	To Advance from Curd Ltd		9.60	
	(Being advance received from Curd Ltd amounting [Rs. 8 lakhs + 20% of Rs. 8 lakhs= 9.60 lakhs] under sale and re-purchase agreement)			
31.03.2017	Financing Charges Account Dr.	0.40		{1 M}
	To Curd Ltd.		0.40	
	(Financing charges for 2 months at Rs. 1.20 lakhs [10.80 – 9.60] i.e. 1.2 lakhs x 2/6)			
31.03.2017	Profit and Loss Account Dr.	0.40		{1 M}
	To Financing Charges Account		0.40	
	(Being amount of finance charges transferred to P& L Account)			

Answer:

(b)

(a)	Amount of foreseeable loss	**(Rs. in lakhs)**	1 M
	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)**	1 M
	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 **1 M**

(d) Amount due from/to customers = (Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= (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. **1 M**

(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

1 M

Answer:

(c) Journal entries in the books of Parth Ltd.

	Dr. Rs.	Cr. Rs.	
Reconstruction A/c Dr.	2,39,000		1 M
To Furniture and Fixtures A/c		55,000	
To Plant and machinery A/c		89,000	
To Investment A/c		95,000	
(Writing off overvalued assets as per Reconstruction Scheme dated.)			
Freehold premises A/c Dr.	55,000		1 M
To Reconstruction A/c		55,000	
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)			
9% Debentures A/c Dr.	2,50,000		1 M
To Bank A/c		50,000	
To Land and building A/c		72,000	
To Reconstruction A/c		1,28,000	
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Reconstruction A/c Dr.	70,000		1 M
To Profit and loss A/c		70,000	
(Being the loss written off as per reconstruction scheme)			
General reserve A/c Dr.	1,26,000		1 M
To Reconstruction A/c		1,26,000	
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)			

Answer:

(d) Journal entries in the books of Anu Ltd.

Rs. in crores

	Particulars	Dr.	Cr.	
1st April, 20X1	12% Preference share capital A/c Dr.	75		1 M
	To Preference shareholders A/c		75	
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c Dr.	75		1 M
	To Bank A/c		75	
	(Being payment made to shareholders)			
	Shares buy-back A/c Dr.	25		1 M
	To Bank A/c		25	
	(Being 50 lakhs equity shares bought back @ Rs. 50 per share)			

	Equity share capital A/c (50 lakhs x Rs. 10) Dr.	5		1 M
	Securities premium A/c (50 lakhs x Rs. 40) Dr.	20		
	To Shares buy-back A/c		25	
	(Being cancellation of shares bought back)			
	Revenue Reserve A/c Dr.	80		1 M
	To Capital Redemption Reserve A/c (75+5)		80	
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			

Answer:

(e) The rights of shares of a particular class, once issued, can be varied or altered:

(a) If provision with respect to such variation is contained in the memorandum or articles of the company; or

(b) In the absence of any such provision in the memorandum or articles, if such variation is not prohibited by the terms of issue of the shares of that class.

2 M

However, it would require consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Hence, if equity shareholders series A require a change in their right, of a particular nature, either a special resolution of a specially convened meeting of this class of shareholders will suffice, or otherwise more than 75% shareholders can give their consent in writing. It must be understood that a company having equity shares with voting rights cannot convert them into equity shares with differential voting rights, or vice-versa. However, the variation in their rights should not affect the rights of any other class, say Equity shares 'B' class or Preference shares. In such situation, if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of the Companies Act section shall apply to such variation.

3 M

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