(GI-7, VI-VDI-SI-3)

DATE: 11.04.2022 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) Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or signific ant influence over the enterprise, and relatives of any such individual". **($2^{1/2}$ M)**

In the above example, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel. **($2^{1/2}$ M)**

Answer:

(b) (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 **{1/2 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% **{1/2 M}**

Since it substantially covers the major portion of lease payments and life of the asset, the lease constitutes a finance lease. **{1/2 M}**

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

(c) Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7.

	Cost of Construction	Rs.	Rs.	
	Material used		71,00,000	
	Labour Charges paid	36,00,000		
Add:	Outstanding on 31.03.2020	2,00,000	38,00,000	
	Hire Charges of Plant		10,00,000	
	Other Contract cost incurred		15,00,000	
	Cost incurred upto 31.03.2020		1,34,00,000	
Add:	Estimated future cost		33,50,000	}{1 M}
	Total Estimated cost of construction		1,67,50,000	
	Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%	}{1 M}
	Revenue recognized (80% of 1,50,00,000)		1,20,00,000	}{1 M}
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000	}{1/2 M}
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)		14,00,000	}{1/2 M}
	Loss to be provided for		3,50,000	}{1 M}

Answer:

(d) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate 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. Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at Rs. 72 lakhs i.e. {2 M}

Rs. 120 lakhs less Rs. 48 lakhs $\left(\frac{Rs.120\ Lakhs}{10\ Years} \times 4\ Years = 48\ Lakhs\right)$. {1 M}

The difference of Rs. 16 Lakhs (Rs. 88 lakhs – Rs. 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 72 lakhs will be amortized over remaining 6 years by amortizing Rs. 12 lakhs per year. {2 M}

Answer 2:

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

		Dr.	Cr.	
		Rs.	Rs.	
(i)	Equity Share Capital (Rs. 10 each) A/c Dr.	50,00,000		(3/4 M)
	To Equity Share Capital (Rs. 5 each) A/c		25,00,000	
	To Reconstruction A/c		25,00,000	
	(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.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c Dr.	20,00,000		
	To 10% Preference Share Capital (Rs. 50		10,00,000	

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

(xi)	Land and Building A/c Dr.	2,00,000		(3/4 M)
	To Reconstruction A/c		2,00,000	
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c Dr.	42,10,000		(2 3/4 M)
	To Goodwill A/c		10,00,000	
	To Patent A/c		5,00,000	
	To Profit and Loss A/c		14,60,000	
	To Discount on issue of Debentures A/c		1,00,000	
	To Plant and Machinery A/c		6,50,000	
	To Furniture & Fixture A/c		1,00,000	
	To Trade Investment A/c		50,000	
	To Inventory A/c		2,50,000	
	To Trade Receivables A/c		1,00,000	
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction)			
(xiii)	Reconstruction A/c Dr.	7,75,000		(3/4 M)
	To Capital Reserve A/c		7,75,000	
	(Being balance of reconstruction A/c transfer to Capital Reserve)			

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**

(10 item x 1/4 M)

Reconstruction Account

	Rs.		Rs.
To Bank (penalty)	**15,000**	By Equity Share Capital A/c	**25,00,000**
To Bank (reconstruction expenses)	**15,000**		
To Goodwill	**10,00,000**	By 9% Pref. Share Capital A/c	**10,00,000**
To Patent	**5,00,000**		
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**

(23 item x 1/4 M)

Answer 3:

(a) Shareholding pattern

Particulars	Number of Shares	% of holding
a. P Ltd.		
(i) Purchased on 31.03.2015	1,05,000	
(ii) Bonus Issue (1,05,000/2)	52,500	
Total	1,57,500	70%
b. Minority Interest	67,500	30%

{1 M}

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

(a) Before issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.	
	Investment in Q Ltd.		12,00,000	
	Less: Face value of investments	10,50,000		
	Capital profits (W.N.)	63,000	(11,13,000)	
	Cost of control		**87,000**	{$1^{1/2}$ M}
(ii)	Minority Interest		Rs.	
	Share Capital		4,50,000	
	Capital profits (W.N.)		27,000	
	Revenue profits (W.N.)		6,79,500	
			11,56,500	{$1^{1/2}$ M}
(iii)	Consolidated profit and loss account – P Ltd.		Rs.	
	Balance		15,75,000	
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500	
			31,60,500	{$1^{1/2}$ M}

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.	
	Face value of investments (Rs. 10,50,000 + Rs. 5,25,000)	15,75,000		
	Capital Profits (W.N.)	63,000	16,38,000	
	Less: Investment in Q Ltd.		(12,00,000)	
	Capital reserve		**4,38,000**	{$1^{1/2}$ M}
(ii)	Minority Interest		Rs.	
	Share Capital (Rs. 4,50,000 + Rs. 2,25,000)		6,75,000	
	Capital Profits (W.N.)		27,000	
	Revenue Profits (W.N.)		4,54,500	
			11,56,500	{$1^{1/2}$ M}
(iii)	Consolidated Profit and Loss Account – P Ltd.		Rs.	
	Balance		15,75,000	
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500	
			26,35,500	{$1^{1/2}$ M}

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits	**Revenue Profits**	
	(Before and after issue of bonus shares) Rs.	**Before Bonus Issue Rs.**	**After Bonus Issue Rs.**

Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	60,000		
	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000
Profit for period of 1st April, 2015 to 31st March, 2021 (Rs. 4,20,000 – Rs. 60,000)		3,60,000	3,60,000
		22,65,000	**15,15,000**
P Ltd.'s share (70%)	**63,000**	**15,85,500**	**10,60,500**
Minority's share (30%)	**27,000**	**6,79,500**	**4,54,500**

{ 2 item x 1 M = 2 M}
{ 6 item x 1/2 M = 3 M}

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Answer:

(b) Under the following circumstances, an LLP can be wound up by the Tribunal:

(i) If the LLP decides that it should be wound up by the Tribunal; }{1 M}

(ii) If for a period of more than six months, the number of partners of the LLP isreduced below two; {1 M}

(iii) If the LLP is unable to pay its debts; }{1 M}

(iv) If the LLP has acted against the interests of the integrity and sovereignty ofIndia, the security of the state or public order; {1 M}

(v) If the LLP has defaulted in the filing of the Statement of Account and Solvencywith the Registrar for five consecutive financial years; {1 M}

Or

(v) If the Tribunal is of the opinion that it is just and equitable that the LLP bewound up. {1 M}

Answer 4:

(a) Balance Sheet as on 30.6.20X2

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.20X2	1,17,000		*Less*: Depreciation@ 10% p.a.	(7,500)	**1,42,500**
Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800		*Less*: Written-off @5%	(1,700)	**32,300**
Less: Drawings for 6months	(5,900)	**1,22,900**	Stock		**75,000**
B's balance as on 1.1.20X2	1,11,000		Sundry Debtors		**60,000**
Add: Profit for 6 months	11,800				
	1,22,800				
Less: Drawings for 6months	(5,900)	**1,16,900**			
Sundry Creditors		**50,000**			
Bank overdraft		**20,000**			
		3,09,800			3,09,800

{ 8 item x 1/2 M = 4 M}

(b) Realization Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	**1,42,500**	By Sundry Creditors A/c	**50,000**
To Leasehold Premises A/c	**32,300**	By Bank Overdraft A/c	**20,000**
To Stock A/c	**75,000**	By Limited Company A/c (W.N.2)	**3,39,800**
To Sundry Debtors A/c	**60,000**		
To A's Capital A/c	**50,000**		
To B's Capital A/c	**50,000**		
	4,09,800		4,09,800

{ 9 item x 1/2 M = $4^{1/2}$ M}

(c) Partners' Capital Accounts

Date	Particulars	A	B	Date	Particulars	A	B
		Rs.	Rs.			Rs.	Rs.
1.1.X2	To Profit & Loss A/c	13,000	13,000	1.1.X2	By Balance b/d	1,40,000	1,30,000
	To Drawings A/c	10,000	6,000				
29.6.X2	To Balance c/d	1,17,000	1,11,000				
		1,40,000	1,30,000			1,40,000	1,30,000
30.6.X2	To Drawings A/c	5,900	5,900	30.6.X2	By Balance b/d	1,17,000	1,11,000
	To Shares in Limited Company A/c	**1,72,900**	**1,66,900**	30.6.X2	By Profit & Loss Appropriation A/c	11,800	11,800
					By Realization A/c	50,000	50,000
		1,78,800	1,72,800			1,78,800	1,72,800

{2 item x 3/4 M = $1^{1/2}$ M}

Working Notes:

(1) Ascertainment of profit for the 6 months ended 30th June, 20X2

Closing Assets:	**Rs.**	**Rs.**
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500
Leasehold premises less written off		32,300
		3,09,800
Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	(70,000)
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs. (1,40,000 – 13,000 – 10,000)	1,17,000	
B – Rs. (1,30,000 – 13,000 – 6,000)	1,11,000	(2,28,000)
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal toprofit)		11,800
Profit for 6 months		**23,600**

{1 M}

(2) Ascertainment of purchase consideration:

Closing net assets (as above) Rs. 2,39,800 + Goodwill Rs. 1,00,000 = Rs. 3,39,800. }{1 M}

Answer:

(b)

In the books of Anmol bank Ltd.

Journal Entries

Rs. in crores

Particulars		Debit	Credit	
Rebate on bills discounted A/c	Dr.	40		{1 M}
To Discount on bills A/c			40	
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')				
Bills purchased and discounted A/c	Dr.	5,000		
To Discount on bills A/c			280	{1 M}
To Clients A/c			4,720	
(Being the discounting of bills of exchange during the year)				
Discount on bills A/c	Dr.	14		{1 M}
To Rebate on bills discounted A/c			14	
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)				
Discount on bills A/c	Dr.	306		{1 M}
To Profit and Loss A/c			306	
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)				

Working Notes:

1. **Discount received on the bills discounted during the year**
   Rs. 5,000 crores x 14/100 x 146/365 = Rs. 280 crores {1 M}
2. **Calculation of rebate on bill discounted**
   Rs. 500 crores x 14/100 x 73/365 = Rs.14 crores {1 M}
3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c.

Discount on bills A/c

Rs. in rores

Date	Particulars	Amount	Date	Particulars	Amount	
31.3.2019	To Rebate on bills discounted	14	1.4.2018	By Rebate on bills discounted b/d	40	
"	To Profit and Loss A/c (Bal. Fig.)	306	2018-19	By Bills purchased and discounted	280	{2 M}
		320			320	

Answer 5:

(a) Liquidator's Final Statement of Account

Receipts		Rs.	Payments		Rs.	
Sundry Assets realized:			Liquidator's Remuneration (Working note)		**25,020**	
Bank Balance		**2,40,000**	Liquidation Expenses (given)		**3,600**	
Plant		**5,90,000**	Secured Creditors:			{12 Item x 1/2 = 6 M}
			6% Mortgage			
Debtors (1,70,000 X 80%)	1,36,000		Loan	4,60,000		
Less: Realization Expenses	(3,700)	**1,32,300**	Add: Interest (4,60,000 × 6% × 6/12)	13,800	**4,73,800**	
Stock (7,20,000× 90%)		**6,48,000**	Unsecured Creditors:			

		Creditors (4,42,000 X 95%)	4,19,900	
		Outstanding Expenses	40,000	**4,59,900**
		Preference Shareholders:		
		Capital	2,50,000	
		Dividend (for 1 year @ 9%)	22,500	**2,72,500**
		Equity Shareholders: (Working note)		
		Fully Paid Shares (4,000×71.935)	2,87,740	
		Partly Paid Shares (4,000×21.935)	87,740	**3,75,480**
	16,10,300			**16,10,300**

Working Note:
Computation of Liquidations' Remuneration and Payment to Equity Shareholders

	Rs.
(a) Total of Receipts (from above account)	**16,10,300**
(b) Total Payments before Final Payment to Members (excluding Preference Capital) and Liquidator's Remuneration (3,600 + 4,73,800 + 4,59,900 + Pref Dividend 22,500)	**(9,59,800)**
(c) Balance left for Liquidator's Remuneration, Pref. Capital and Equity Shareholders	**6,50,500**
(d) Liquidator's Remuneration (6,50,500 × 4/104 = Rs. 25,020 or Rs. 20,000 whichever is higher)	**(25,020)**
(e) Refund of Capital to Preference Shareholders	**(2,50,000)**
(f) Balance money before Notional Call	**3,75,480**
(g) Notional Call on 4,000 Partly Paid Shares at Rs. 50 each (to make all Shares Rs. 100 paid up)	**2,00,000**
(h) Surplus Cash balance after Notional Call	**5,75,480**
(i) Number of Equity Shares deemed fully paid (4,000 + 4,000)	**8,000**
(j) Hence, Refund on every Rs. 100 paid up Share (h ÷ i) = Rs. 5,75,480 ÷ 8,000	**Rs. 71.935**
(k) Loss per Rs. 100 paid up Equity Share = Paid Up Value Rs. 100 – Refund as above Rs. 71.935	**28.065**
(l) Refund per Rs. 50 Partly Paid-Up Equity Share = Paid Up Value Rs. 50 – Loss as above Rs. 28.065	**21.935**

{12 Item x 1/2 = 6 M}

Answer:
(b) **In the books of P Ltd.**
Journal Entries

Date	Particulars	(Rs.)	(Rs.)
31.3.20X1	Employees compensation expense account Dr.	80,000	
	To Employee stock option outstanding account		80,000
	(Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of Rs. 90 (170-80) each, amortized on straight line basis over $4^{1/2}$ years [(8,000 stock options x Rs. 90) / 4.5 years] x 0.5]) (W.N.1)		
	Profit and loss account Dr.	80,000	
	To Employees compensation expenses account		80,000

{1/2 M} **{1/2 M}**

	(Being expenses transferred to profit and loss account at the year end)			
31.3.20X2	Employees compensation expense account Dr.	1,60,000		
	To Employee stock option outstanding account		1,60,000	{1/2 M}
	(Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(8,000 stock options x Rs. 90) / 4.5 years) x 1 year])			
	Profit and loss account Dr.	1,60,000		
	To Employees compensation expense account		1,60,000	{1/2 M}
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X3	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/2 M}
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Employee stock option outstanding account Dr. (W.N.2)	1,20,000		{1/2 M}
	To General Reserve account (W.N.2)		1,20,000	
	(Being excess of employees compensation expenses transferred to general reserve account)			
	Profit and loss account Dr.	80,000		
	To Employees compensation expenses account		80,000	{1/2 M}
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X4	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/2 M}
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Profit and loss account Dr.	80,000		
	To Employees compensation expenses account		80,000	{1/2 M}
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X5	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/2 M}
	(Being compensation expenses recognized in respect of the employee stock option i.e.			

	4,000 options at a discount of Rs.90 each, amortised on straight line basis over $4^{1/2}$ years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Profit and loss account Dr.	80,000		{1/2 M}
	To Employees compensation expense account		80,000	
	(Being expenses transferred to profit and loss account at year end)			
30.9.20X5	Bank A/c (3,000 × Rs. 80) Dr.	2,40,000		{1/2 M}
	Employee stock option outstanding Dr.	2,70,000		
	To Equity share capital account (3,000 x Rs. 10)		30,000	
	To Securities premium [(Rs. 170 – Rs. 10) x 3,000]		4,80,000	
	(Being 3,000 employee stock option exercised at an exercise price of Rs. 80 each)			
	Employee stock option outstanding account Dr. (W.N.3)	90,000		{1/2 M}
	To General reserve account (W.N.3)		90,000	
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)			

Working Notes:

1. Fair value = Rs. 170 – Rs. 80 = Rs. 90 }{1/2 M}
2. At 1.12.X2, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = Rs. (80,000 + 1,60,000) x 4,000 / 8,000 = Rs. 1,20,000 {1/2 M}
3. Expenses charged on lapsed vested options transferred to general reserve = 1,000 x Rs. 90 = Rs. 90,000 {1/2 M}

Answer 6:

(a) 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. **{1 M}**

(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. **{1 M}**

(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. **{1 M}**

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

(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. **{1 M}**

Answer:

(b) W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is Rs. 40 Lakhs and Preference share capital is Rs. 20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be: **{1 M}**

W=	2/3X40/100	=	**4/15**
X =	2/3X30/100	=	**3/15**
Y =	2/3X10/100	=	**1/15**
Z =	2/3X20/100	=	**2/15**
A =	1/3X30/100	=	**1/10**
B =	1/3X40/100	=	**2/15**
C =	1/3X20/100	=	**1/15**
D =	1/3X10/100	=	**1/30**

{8 Item x 1/2 = 4 M}

Answer:

(c) (a) In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

(i) total contract revenue can be measured reliably;

(ii) it is probable that the economic benefits associated with the contract will flow to the enterprise;

(iii) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and

(iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

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

(b) According to AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract. **{$2^{1/2}$ M}**

Answer:

(d) The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. AS 20 states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period". With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct. **{5 M}**

Answer:

(e) 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	**Nil**
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x (675+1,050)	**172.50**
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 225	**90**
(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 21,200	**14,840**
	Total	**15,102.50**

{5 item x 1 M = 5 M}

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