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

DATE: 18.02.2022 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) Following will be the treatment in the given cases:

(a) When sales price of Rs. 50 lakhs is equal to fair value, Reliance Ltd. should immediately recognise the profit of Rs. 10 lakhs (i.e. 50 – 40) in its books. **{3/4 M}**

(b) When fair value is Rs. 60 lakhs then also profit of Rs. 10 lakhs should be immediately recognised by Reliance Ltd. **{3/4 M}**

(c) When fair value of leased machinery is Rs. 45 lakhs & sales price is Rs. 38 lakhs, then loss of Rs. 2 lakhs (40 – 38) to be immediately recognised by Reliance Ltd. in its books provided loss is not compensated by future lease payment. **{1.25 M}**

(d) When fair value is Rs. 40 lakhs & sales price is Rs. 50 lakhs then, profit of Rs. 10 lakhs is to be deferred and amortised over the lease period. **{3/4 M}**

(e) When fair value is Rs. 46 lakhs & sales price is Rs. 50 lakhs, profit of Rs. 6 lakhs (46-40) to be immediately recognised in its books and balance profit of Rs.4 lakhs (50-46) is to be amortised/deferred over lease period. **{3/4 M}**

(f) When fair value is Rs. 35 lakhs & sales price is Rs. 39 lakhs, then the loss of Rs. 5 lakhs (40-35) to be immediately recognised by Reliance Ltd. in its books and profit of Rs. 4 lakhs (39-35) should be amortised/deferred over lease period. **{3/4 M}**

Answer:

(b) 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:

(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 1.08 x 4 / 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) 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 {3/4 M}

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. {3/4 M}

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party. {1 M}

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs. 1,95,000 for the year ended 31st March, 2017. {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. 2,50,000 as the time period for rejecting the goods had expired. {1 M}

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd. {1/2 M}

Answer 2:

(a)

Books of K Ltd.

Realization Account

	Rs.		Rs.
To Goodwill	**80,000**	By 5% Debentures	**2,00,000**
To Land & Building	**4,50,000**	By Trade payables	**1,00,000**
To Plant & Machinery	**6,20,000**	By LK Ltd.	**15,60,000**
To Furniture & Fitting	**60,000**	By (Purchase consideration)	
To Trade receivables	**2,75,000**	By Equity shareholders A/c (loss)	**51,375**
To Stores & inventory	**2,25,000**		

{13 Item x 1/4 = $3^{1/4}$ M}

To Cash at Bank	**1,20,000**		
To Cash in hand	**41,375**		
To Preference shareholders (excess payment)	**40,000**		
	19,11,375		19,11,375

Equity Shareholders Account

	Rs.		Rs.
To Realization A/c (loss)	**51,375**	By Share capital	**8,00,000**
To Equity Shares in LK Ltd.	**10,56,000**	By Profit & Loss A/c	**3,71,375**
To Cash	**64,000**		
	11,71,375		11,71,375

{5 Item x 1/4 = $1^{1/4}$ M}

7% Preference Shareholders Account

To Preference Shares in LK Ltd.	**4,40,000**	By Share capital	**4,00,000**
		By Realization A/c	**40,000**
	4,40,000		4,40,000

{3 Item x 1/4 = 3/4 M}

LK Ltd. Account

To Realization A/c	**15,60,000**	By Equity Shares in LK Ltd.		
		For Equity	10,56,000	
		Pref.	4,40,000	**14,96,000**
		By Cash		**64,000**
	15,60,000			15,60,000

{3 Item x 1/4 = 3/4 M}

Books of L Ltd.
Realization Account

	Rs.		Rs.
To Land & Building	**3,00,000**	By Trade payables	**2,10,000**
To Plant & Machinery	**5,00,000**	By Secured loan	**2,00,000**
To Furniture & Fittings	**20,000**	By LK Ltd. (Purchase	
To Trade receivables	**1,75,000**	consideration)	**7,90,000**
To Inventory of stores	**1,40,000**	By Equity shareholders A/c—	
To Cash at bank	**55,000**	Loss	**37,175**
To Cash in hand	**17,175**		
To Pref. shareholders	**30,000**		
	12,37,175		12,37,175

{12 Item x 1/4 = 3 M}

Equity Shareholders Account

	Rs.		Rs.
To Equity shares in LK Ltd.	**3,96,000**	By Share Capital	**3,00,000**
To Realization	**37,175**	By Profit & Loss A/c	**97,175**
To Cash	**64,000**	By Reserve	**1,00,000**
	4,97,175		4,97,175

{6 Item x 1/4 = $1^{1/2}$ M}

7% Preference Shareholders Account

To	Preference Shares in LK Ltd.	**3,30,000**	By Share capital	**3,00,000**
			By Realization A/c	**30,000**
		3,30,000		3,30,000

{3 Item x 1/4 = 3/4 M}

LK Ltd. Account

	Rs.			Rs.
To Realization A/c	**7,90,000**	By Equity shares in LK Ltd.		
		For Equity	3,96,000	
		Preference	3,30,000	**7,26,000**
		By Cash		**64,000**
	7,90,000			7,90,000

{3 Item x 1/4 = 3/4 M}

Working Notes:

(i) Purchase consideration

	K Ltd. Rs.	L Ltd. Rs.
Payable to preference shareholders:		
Preference shares at Rs. 22 per share	4,40,000	3,30,000
Equity Shares at Rs. 22 per share	10,56,000	3,96,000
Cash [See W.N. (ii)]	64,000	64,000
	15,60,000	**7,90,000**

{1 M + 1 M = 2 M}

(ii) Value of Net Assets

		K Ltd.		L Ltd.
		Rs.		Rs.
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Trade receivables less 2.5%		2,68,125		1,70,625
Inventory less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
		18,60,000		12,00,000
Less : Debentures	2,00,000		–	
Trade payables	1,00,000		2,10,000	
Secured Loans	——	(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		**64,000**		**64,000**

{1 M}

Answer:

(b) **Journal Entries**

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (Rs. 10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Capital Reduction A/c			2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures A/c			1,00,000
(Being allotment of 10% first Debentures)			

{2 M} {1 M}

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

{2 M}

Answer 3:

(a)

Books of P & Q Co.

Realization Account

Particulars		Rs.	Particulars		Rs.
To Debtors	**25,000**		By Creditors		**20,000**
To Stock	**35,000**		By Bank overdraft		**5,000**
To Furniture	**40,000**		By Bank:		
To Machinery	**60,000**	**1,60,000**	Investment	**25,000**	
To Bank:			Furniture	**30,000**	
Creditors	**20,000**		Machinery	**50,000**	
Bank overdraft	**5,000**		Debtors (90%)	**22,500**	
Outstanding bill	**2,000**	**27,000**	Stock	**20,125**	
To Profit transferred to:			Bad debts Recovered	**1,245**	**1,48,870**
P's capital	**1,310**		By P's capital		**15,750**
Q's capital	**1,310**	**2,620**	(stock taken over)		
		1,89,620			1,89,620

{22 Item x 1/4 M = 5.5 M}

Partners' Capital Accounts

	P	Q		P	Q
To P's current Account	**16,940**		By Balance b/d	**1,00,000**	**50,000**
To Bank	**83,060**	**68,810**	By Q's current Account		**18,810**
	1,00,000	68,810		1,00,000	68,810

{6 Item x 1/4 M = 1.5 M}

Bank Account

	Rs.		Rs.
To Balance b/d	**30,000**	By Realization	**27,000**
To Realization	**1,48,870**	By P's capital	**83,060**
		By Q's capital	**68,810**
	1,78,870		1,78,870

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

Working Note:

Partners' Current Accounts

	P	Q		P	Q
To Balance b/d	10,000		By Balance b/d		10,000
To Realization	15,750		By Reserves	7,500	7,500
To Q's capital		18,810	By Realization (profit)	1,310	1,310
			By P's Capital	16,940	
	25,750	18,810		25,750	18,810

{$1^{3/4}$ M}

Answer:

(b) Fair value of an option = Rs. 67 – Rs. 60 = Rs. 7
Number of shares issued = 600 employees x 150 shares/employee = 90,000 shares
Fair value of ESOP = 90,000 shares x Rs. 7 = Rs. 6,30,000
Vesting period = 1 year
Expenses recognized in 2020-21 = Rs. 6,30,000

{2 M}

Date	Particulars		Rs.	Rs.
31.03.2021	Bank (90,000 shares x Rs. 60)	Dr.	54,00,000	
	Employees stock compensation expense A/c	Dr.	6,30,000	
	To Share Capital (90,000 shares x Rs. 10)			9,00,000
	To Securities Premium (90,000 shares x Rs. 57)			51,30,000
	(Being option accepted by 600 employees & payment made @ Rs. 60 per share)			
	Profit & Loss A/c	Dr.	6,30,000	
	To Employees stock compensation expense A/c			6,30,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)			

{2 M}

{1 M}

Answer:

(c) Owned fund calculation:

Paid up share capital: Rs. 150 lakhs

Free reserves: Rs. 250 lakhs

Compulsory convertible preference shares (CCPS): Rs. 50 lakhs

Total: **Rs. 450 lakhs** (owned fund) }{5 M}

Answer 4:

(a)

ZED Bank Ltd

Profit and Loss Account for the year ended 31st March, 2013

	Particulars	Schedule No.	Year ended on 31st March,2013
			(Rs. in '000)
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

12 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 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**

{2 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) **(Rs. in lakhs)**

Date	Particulars		Debit	Credit
20X1				
1st April	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of Rs. 10 each bought back @ Rs. 30 per share)			
	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy-back A/c			90.00
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing Rs. 2 lakhs, face value being Rs. 2.20 lakhs and the balance being profit on cancellation of debentures)			

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

	Bank A/c Dr.	10.00		
	Employees stock option outstanding (Current liabilities) A/c Dr.	5.00		
	To Equity share capital A/c		5.00	{1/2 M}
	To Securities premium A/c		10.00	
	(Being the allotment to employees, of 50,000 shares of Rs. 10 each at a premium of 20 per share in exercise of stock options by employees)			
	Securities premium A/c Dr.	2.00		
	To Premium on redemption of preference shares A/c		2.00	{1/2 M}
	(Being premium on redemption of preference shares adjusted through securities premium)			

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs Rs.)

		Particulars		**Notes**	**Rs.**	
		Equity and Liabilities				
1		**Shareholders' funds**				
	A	Share capital		1	75.00	}{1/2 M}
	B	Reserves and Surplus		2	66.20	}{1/2 M}
2		**Non-current liabilities**				
		Long term borrowings		3	1.80	}{1/2 M}
3		**Current liabilities**				
	A	Other Current Liabilities		4	65.00	}{1/2 M}
			Total		208	
		Assets				
1		**Non-current assets**				
	A	Property, plant and Equipment			50.00	}{1/2 M}
	B	Non-current Investments		5	118.00	}{1/2 M}
2		**Current assets**				
	A	Cash and Cash equivalents		6	40.00	}{1/2 M}
			Total		208	

Notes to accounts

No.	**Particulars**		**Rs.**	
1	**Share Capital**			
	Equity shares of Rs. 10 each fully paid		100	
	Less: Cancellation of bought back shares		(30)	
	Add: Shares issued against ESOP		5	
	Total		**75**	}{1/4 M}
2	**Reserves and Surplus**			
	Capital Reserve			
	Opening balance	8.00		
	Add: Profit on cancellation of debentures	0.20	8.20	
	Revenue reserves			
	Opening balance	50.00		
	Less: Creation of Capital Redemption Reserve	(50.00)	-	
	Securities Premium			
	Opening balance	60.00		
	Less: Adjustment for cancellation of equity shares	(60.00)		
	Less: Adjustment for premium on redemption of preference shares	(2.00)		
	Add: Shares issued against ESOP at premium	10.00	8.00	
	Capital Redemption Reserve		50.00	

	Total		**66.20**	}{1 1/4 M}
3	**Long term borrowings**			
	10% Debentures		4.00	
	Less: Cancellation of own debentures		(2.20)	
	Total		**1.80**	}{1/4 M}
4.	**Other Current liabilities**			
	Opening balance		70.00	
	Less: Adjustment for ESOP outstanding		(5.00)	
	Total		**65.00**	}{1/4 M}
5.	**Non-current investments**			
	Opening balance		120.00	
	Less: Investment in own debentures		(2.00)	
	Total		**118.00**	}{1/4 M}
6.	**Cash and Cash Equivalents**			
	Opening balance		142.00	
	Less: Payment to preference shareholders		(22.00)	
	Less: Payment to equity shareholders		(90.00)	
	Add: Share price received against ESOP		10.00	
	Total		**40.00**	}{1/4 M}

Answer 5:

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd. as at 31st December, 20X1

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	**5,00,000**
(b) Reserves and Surplus	2	**3,08,800**
(2) Minority Interest		**83,600**
(3) Current Liabilities		
(a) Trade Payables	3	**64,500**
(b) Short term borrowings	4	**80,000**
Total		**10,36,900**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	**7,41,000**
(b) Intangible assets	6	**17,200**
(2) Current assets		
(a) Inventories	7	**1,56,400**
(b) Trade receivables	8	**99,800**
(c) Cash & Cash equivalents	9	**22,500**
Total		**10,36,900**

(12 item x 1/2 M= 6 M}

Notes to Accounts

				Rs.	
1.	**Share Capital**				
	5,000 shares of Rs. 100 each			**5,00,000**	}{1/2 M}
2.	**Reserves and Surplus**				
	Reserves		2,40,000		
	Profit & loss (Refer to W.N 8)		68,800		
	Total			**3,08,800**	}{1/2 M}
3.	**Trade Payables**				
	A Ltd.	47,100			
	Add: B Ltd	17,400			
	Total			**64,500**	}{1/2 M}

4.	**Short term borrowings**				
	Bank overdraft			**80,000**	{1/2 M}
5.	**Property, plant and equipment**				
	Land and building- A Ltd	1,50,000			
	Add: Land and building- B Ltd	1,80,000	3,30,000		
	Plant & Machinery (Refer to W.N 7)		4,11,000		
	Total			**7,41,000**	{1/2 M}
6.	**Intangible assets**				
	Goodwill (refer to W.N 6)			**17,200**	{1/2 M}
7.	**Inventories**				
	A Ltd.		1,20,000		
	B Ltd.		36,400		
	Total			**1,56,400**	{1/2 M}
8	**Trade Receivables**				
	A Ltd.	59,800			
	B Ltd.	40,000			
	Total			**99,800**	{1/2 M}
9	**Cash & Cash equivalents**				
	Cash of A Ltd		14,500		
	Add: cash of B Ltd.		8,000		
	Total			**22,500**	{1/2 M}

Share holding Pattern

Total Shares of B Ltd 2,000 shares
Shares held by A Ltd 1,600 shares i.e. 80 %
Minority Shareholding 400 shares i.e. 20 %
{1/2 M}

Working Notes:

1. The dividend @ 10% on 1,600 shares - Rs. 16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz.

Profit & Loss Account Dr. Rs. 16,000
To Investment Rs. 16,000

{3/4 M}

2. The Plant & Machinery of B Ltd. would stand in the books at Rs. 1,42,500 on 1st July, 20X1, considering only six months' depreciation on Rs. 1,50,000 total depreciation being Rs. 15,000. The value put on the assets being Rs. 1,80,000, there is an appreciation to the extent of Rs. 37,500 (1,80,000 – 1,42,500). **{3/4 M}**

3. Capital profits of B Ltd.

		Rs.	**Rs.**
Reserve on 1st January, 20X1 (Assumed there is no movement in reserves during the year and hence balance as on 1st January 20X1 is same as of 31st December 20X1)			1,00,000
Profit & Loss Account Balance on 1st January, 20X1		30,000	
Less: Dividend paid		(20,000)	10,000
Profit for 20X1:			
Total	Rs. 82,000		
Less:	Rs. 10,000		
	Rs. 72,000		
Proportionate upto 1st July, 20X1 on time basis (Rs. 72,000/2)			36,000
Appreciation in value of Plant & Machinery			37,500
			1,83,500

{1 1/2 M}

Less: 20% due to outsiders		(36,700)
Holding company's share		**1,46,800**

4. Revenue profits of B Ltd.:

Profit after 1st July, 20X1 [(82,000 – 10,000) x ½]		36,000
Less: Depreciation		
10% depreciation on Rs. 1,80,000 for 6 months	9,000	
Less: Depreciation already charged for 2^{nd} half year on 1,50,000	(7,500)	(1,500)
		34,500
Less: 1/5 due to outsiders		(6,900)
Share of A Ltd.		**27,600**

{1 M}

5. Minority interest:

Par value of 400 shares (2,00,000 X 20%)	40,000
Add: 1/5Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

{1 M}

6. Cost of Control:

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits –share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		**17,200**

{2 M}

7. Value of plant & Machinery:

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 20X1 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2^{nd} half charged on pre- revalued value	7,500	
Less: Depreciation on Rs.1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

{1 M}

8. Profit & Loss Account (Consolidated):

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	(16,000)	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

{1 M}

Answer 6:

(a) In the given case, Milk Ltd. concurrently agreed to repurchase the same goods from Curd Ltd. on 1^{st} 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 1^{st} 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) (i) 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 related party for disclosure in the financial statements for the year ended 31.3.2021. {3 M}

(ii) As per AS 18, transactions of X Ltd. with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported. {2 M}

Answer:

(c) Garner vs. Murray rule: When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.
   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner. {2 M}
2. When the firm has only two partners. {1 M}
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner. {1 M}
4. When all the partners of the firm are insolvent. {1 M}

Answer:

(d) **Liquidator's Final Statement of Account**

Receipts	Rs.	Payments	Rs.
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000 Equity Shares @ Rs. 10 per share (W.N.)	20,000	Liquidator's Remuneration	400
		Unsecured Creditors	99,000
		Preference Shareholders	3,00,000
	4,00,400		**4,00,400**

}{1 M}

Working Notes:

(i)	**Calculation of Shortage of funds**	Rs.
	Total Amount Available	3,80,400
	Less: liquidation Expenses	(1,000)
	Balance	3,79,400
	Less: Unsecured Creditors	(99,000)
	Balance	2,80,400
	Less: Pref. Shareholders	(3,00,000)
	Shortage of Funds	**19,600**

}{1 M}

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

Shortage of funds x $\frac{100}{100 - Rate\ of\ \ Commission} = 19{,}600 \times \frac{100}{100-2}$

$= \frac{19{,}600 \times 100}{98} = Rs.\ 20{,}000$

{1 M}

(iii) Uncalled Capital @ Rs. 25 on 2,000 shares = **Rs. 50,000** }{1/2 M}

(iv) Amount of Calls to be made from equity shareholders (least of funds required and uncalled capital) i.e. Rs. 20,000 i.e. Rs. 10 per Share }{3/4 M}

(v) Commission on Call = Rs. 20,000 x 2/100 = **Rs. 400** }{3/4 M}

Answer:

(e) Calculation of provision required on advances as on 31st March, as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount Rs. in lakhs	**Percentage of provision**	**Provision Rs. in lakhs**
Standard assets	16,800	0.25	**42.00**
Sub-standard assets	1,340	10	**134.00**
Secured portions of doubtful debts-			
– upto one year	320	20	**64.00**
– one year to three years	90	30	**27.00**
– more than three years	30	50	**15.00**
Unsecured portions of doubtful debts	97	100	**97.00**
Loss assets	48	100	**48.00**
			427.00

{7 Item x ½ M = 3.5 M}

}{1½ M}

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