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

DATE: 24.07.2022 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 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a single plan, is:
   (1) disposing of substantially in its entirety,
   (2) disposing of piecemeal, or
   (3) terminating through abandonment; and **{1 M}**

(ii) that represents a separate major line of business or geographical area of operations; and **{1/2 M}**

(iii) that can be distinguished operationally and for financial reporting purposes. **{1/2 M}**

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business; **{2 M}**

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. **{1 M}**

Answer:

(c) 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:

(d) 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 2:

(a)

In the books of M/s Om

Cash Account (Bank Column)

	Rs.			Rs.
To Balance b/d	75,000	By Realisation A/c-		
To Realization A/c	12,46,600	(Payment of sundry liabilities)		5,75,000
(Realization of Sundry assets)		By Partners' Capital A/cs:		
		A	**2,42,600**	
		B	**3,42,600**	
		C	**1,61,400**	7,46,600
	13,21,600			13,21,600

{1 M}

Realization Account

To Land		50,000	By Current Liabilities		70,000
To Building		2,50,000	By Loan from NBFC		5,00,000
To Office equipment		1,25,000	By Cash A/c:		
To Computers		70,000	Land	1,00,000	
To Debtors		4,00,000	Building	3,00,000	
To Stocks		3,00,000	Office Equip.	1,25,000	
To Other Current Assets		22,600	Computers	49,000	
To Cash A/c:			Debtors	3,80,000	
Current liabilities	70,000		Stocks	2,70,000	
Loan from NBFC	5,05,000	5,75,000	Other Current Assets	22,600	12,46,600
To Partners' Current A/cs:					
Profit on realisation:					
A	**9,600**				
B	**9,600**				
C	**2,400**				
D	**2,400**	24,000			
		18,16,600			18,16,600

{4 item x 1 M = 4 M}

Partners' Capital Accounts

	A	B	C	D		A	B	C	D
	Rs.	**Rs.**	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**	**Rs.**
To Partners' Current A/cs Transfer	–	–	–	85,000	By Balance b/d	2,00,000	2,00,000	1,00,000	–
To D A/c 50% of deficiency	–	–	42,500	–	By Partners' Current A/cs transfer	59,600	1,59,600	1,12,400	–
To D A/c- balance of deficiency borne in capital ratio of other partners (2:2:1)	17,000	17,000	8,500	–	By C A/c – 50% of deficiency	–	–	–	42,500

					By A A/c	–	–	–	17,000
To Cash A/c - final Settlement	**2,42,600**	**3,42,600**	**1,61,400**	–	By B A/c	–	–	–	17,000
					By C A/c	–	–	–	8,500
	2,59,600	3,59,600	2,12,400	85,000		2,59,600	3,59,600	2,12,400	85,000

{3 item x 1 M = 3 M}

Partners' Current Accounts

	A	B	C	D		A	B	C	D
	Rs.	**Rs.**	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**	**Rs.**
To Balance b/d	–	–	–	87,400	By Balance b/d	50,000	1,50,000	1,10,000	–
To Partners'	59,600	1,59,600	1,12,400	–	By Realisation A/c	9,600	9,600	2,400	2,400
Capital A/cs (transfer)					By Partners' Capital A/cs (transfer)	–	–	–	85,000
	59,600	1,59,600	1,12,400	87,400		59,600	1,59,600	1,12,400	87,400

{4 item x 1/2 M = 2 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 3:

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		

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

(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**	

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 %	{1/2 M}
Minority Shareholding	400 shares i.e. 20 %	

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

{1 1/2 M}

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 2nd 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 4:

(a) (i) Purchase consideration computation

	Rs.	
Cash payment for (3,00,000 x Rs. 2.5)	**7,50,000**	**{3/4 M}**
Equity Shares (4,50,000 x Rs. 15)	**67,50,000**	**{3/4 M}**
	$\boxed{\textbf{75,00,000}}$	**{3/4 M}**

In the books of Srishti Ltd.
Realisation Account

	Rs.		Rs.
To Goodwill	**5,00,000**	By 9% Debentures	**5,00,000**
To Tangible Fixed Assets	**30,00,000**	By Creditors	**1,00,000**
To Stock	**10,40,000**	By By Anu Ltd.	**75,00,000**
To Debtors	**1,80,000**	(Purchase consideration)	
To Cash & Bank A/c	**2,55,000**		
(2,80,000- 25,000)			
To Cash & Bank A/c	**25,000**		
(Realization expenses)			
To Profit on realization	**31,00,000**		
transfer to shareholders			
	81,00,000		81,00,000

10 item x {1/4 M}

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary expenses	**50,000**	By Equity Share Capital	**30,00,000**
To Equity Shares in Anu Ltd.	**67,50,000**	By Export Profit Reserves	**8,50,000**
To Cash & Bank A/c	**7,50,000**	By General Reserves	**50,000**
		By P & L A/c	**5,50,000**
		By Realization A/c	**31,00,000**
	75,50,000		75,50,000

8 item x {1/4 M}

9% Debentures Account

	Rs.		Rs.
To Realization A/c	**5,00,000**	By Balance b/d	**5,00,000**

2 item x {1/4 M}

Anu Ltd.

	Rs.		Rs.
To Realization A/c	**75,00,000**	By Share Capital	**67,50,000**
		By Bank A/c	**7,50,000**
	75,00,000		75,00,000

3 item x {1/4 M}

(ii) Journal Entries in the books of Anu Ltd.

			Rs.	Rs.
1	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd			75,00,000
	(Being business of Srishti Ltd. taken over)			
2	Tangible Fixed Assets	Dr.	60,00,000	
	Stock	Dr.	7,10,000	
	Debtors	Dr.	1,80,000	
	Cash & Bank A/c	Dr.	2,55,000	
	Goodwill A/c (Bal. fig.)	Dr.	10,64,000	
	To Provision for doubtful debts			9,000
	To Liability for 9 % Debentures			6,00,000
	To Creditors			1,00,000
	To Business Purchase account			75,00,000
	(Being assets and liabilities taken over)			
3	Amalgamation Adjustment A/c	Dr.	8,50,000	
	To Export Profit Reserves			8,50,000
	(Being statutory Reserves taken over)			
4	Goodwill	Dr.	50,000	
	To Bank A/c			50,000
	(Liquidation expenses reimbursed)			
5	Liquidator of Shristi Ltd.	Dr.	75,00,000	
	To Equity Share Capital			45,00,000
	To Securities Premium			22,50,000
	To Bank A/c			7,50,000
	(Being purchase consideration discharged)			
6	Liability for 9% Debentures (5,00,000 x 120/100)	Dr.	6,00,000	
	Discount on issue of debentures		25,000	
	To 8% Debentures (6,00,000 x 100/96)			6,25,000
	(Being liability of debenture holders' discharged)			

{1 M} {2 M} {1 M} {1 M} {1 M} {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	**{2 M}**
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)				

Answer 5:
(a)

Statement of Affairs of X Co. Ltd. on the 1st day of April, 2017

	Assets not specifically pledged :					Estimated realizable values	
	Cash in Hand					**3,000**	
	Investments					**12,000**	
	Debtors					**1,40,000**	**5 item x {1/2 M}**
	Stock					**6,000**	
	Machinery					**1,80,000**	
						3,41,000	**{1/4 M}**
	Assets specifically pledged:						
		(a)	(b)	(c)	(d)		
		Estimated Realisable Value	Due to Secured Creditors	Deficiency ranking as unsecured	Surplus carried to last column		
		Rs.	Rs.	Rs.	Rs.		
	Lease hold property	2,18,000	54,000	--	1,64,000		
		Estimated surplus from assets specifically pledged				**1,64,000**	**{1/2 M}**
		Estimated total assets available for preferential creditors, debentures holders secured by floating charge, and unsecured creditors				**5,05,000**	**{1/2 M}**
		Summary of Gross assets					
		Gross realisable value of assets specifically pledged			Rs. 2,18,000		
		Other Assets			Rs. 3,41,000		
		Gross Assets			Rs. 5,59,000		
		Rs. Gross Liabilities(to be deducted from surplus or added to deficiency as the case may be)					
		Secured creditors to the extent to which claims are estimated to be covered by assets					
	54,000	Specifically pledged					
	3,000	Preferential creditors				**3,000**	**{1/2 M}**
4 item x {1/2 M}		Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors				**5,02,000**	**{1/2 M}**
	1,50,000	Debentures				**1,50,000**	**{1/2 M}**
		Estimated surplus as regard debenture holders				**3,52,000**	**{1/2 M}**
	60,000	Creditors				**60,000**	**{1/2 M}**
{1/4 M}	**2,67,000**					**2,92,000**	**{1/2 M}**
		Estimated surplus as regards creditors [being difference between gross assets (d) and gross liabilities (e)]					

	Issued and called up capital :		
	24,000 equity shares of Rs. 10 each	**2,40,000**	{1/2 M}
	Estimated surplus as regard members	**52,000**	{1/2 M}

Answer:

(b)

KLM Bank Limited

Profit and Loss Account for the year ended 31st March, 20X2

		Schedule	Year ended 31.03.20X2
			Rs.
I.	Income:		
	Interest earned	13	**37,95,160**
	Other income	14	**4,87,800**
	Total		**42,82,960**
II.	Expenditure		
	Interest expended	15	**22,95,360**
	Operating expenses	16	**5,70,340**
	Provisions and contingencies		
	(4,50,000+2,00,000+2,00,000)		**8,50,000**
	Total		**37,15,700**
III.	Profits/Losses		
	Net profit for the year		**5,67,260**
	Profit brought forward		**Nil**
			5,67,260
IV.	Appropriations		
	Transfer to statutory reserve (25% of 5,67,260)		**1,41,815**
	Proposed dividend		**50,000**
	Balance carried over to balance sheet		**3,75,445**
			5,67,260

14 item x {1/2 M}

Profit & Loss Account balance of Rs. 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. **{1/2 M}**

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

{1/2 M}

*It is assumed that preliminary expenses have been fully written off during the year.

Answer 6:

(a) (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:

(b) 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:

(c) **Journal Entries in the books of M Ltd.**

			Dr.	**Cr.**	
			Rs. in '000	**Rs. in '000**	
1.	Bank A/c	Dr.	2,500		{1 M}
	Profit and Loss A/c	Dr.	500		
	To Investment A/c			3,000	
	(Being investment sold for the purpose of buy-back of Equity Shares)				
2.	Equity share capital A/c	Dr.	600		{1 M}
	Premium payable on buy-back	Dr.	300		
	To Equity shares buy-back A/c			900	
	(Being the amount due on buy-back of equity shares)				
3.	Equity shares buy-back A/c	Dr.	900		{1 M}
	To Bank A/c			900	
	(Being payment made for buy-back of equity shares)				
4.	Securities Premium A/c	Dr.	300		{1 M}
	To Premium payable on buy-back			300	
	(Being premium payable on buy-back charged from Securities premium)				

5.	Revenue reserve A/c	Dr.	600	
	To Capital Redemption Reserve A/c			600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)			

{1 M}

Answer:

(d) In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months. **{5 M}**

Answer:

(e) 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}**

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