(GI-8, FMT)

DATE: 07.04.2023 **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) Provision:

As per AS-7 'Construction Contracts' when a contract covers a number of assets, the construction of each asset should be treated as a separate contract when:

1. separate proposal have been submitted for each asset;
2. each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
3. the costs and revenues of each asset can be identified.

{2 M}

Analysis:

In the given case, GTI Ltd. negotiates with Bharat Oil Corporation Ltd. Separate proposal is submitted for each construction, though a single agreement is entered between the two. Also values for each contract is defined separately such as Rs. 102 lakhs, Rs. 150 lakhs and Rs. 130 Lakhs for Region X, Region Y and Region Z respectively. **{1 M}**

Conclusion:

Thus, GTI Ltd. is required to treat construction of each unit as a separate construction contract. Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS-7. **{2 M}**

Answer:

(b) Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property Rs. 1,50,000 would be considered.	**{$1^{1/2}$ M}**
(b)	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.	**{$1^{1/2}$ M}**
(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, Rs. 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.	**{2 M}**

Answer 1:

(c) Desire Limited amortised Rs. 20,00,000 per annum for the first two years i.e. Rs. 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows: **{1/2 M}**

Year	Net cash flows Rs.	Amortization Ratio	Amortization Amount Rs.
I	-	0.200	**20,00,000**
II	-	0.200	**20,00,000**
III	45,00,000	0.225	**13,50,000**
IV	42,00,000	0.21	**12,60,000**
V	40,00,000	0.20	**12,00,000**
VI	38,00,000	0.19	**11,40,000**
VII	35,00,000	0.175	**10,50,000**
Total	2,00,00,000	1.000	**1,00,00,000**

8 item x {1/2 M}

It may be seen from above that from third year onwards, the balance of carrying amount i.e., Rs. 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd. **{1/2 M}**

Answer:

(d) (i) Determination of nature of lease

Fair value of asset Rs. 7,00,000

Unguaranteed residual value Rs. 70,000

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

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

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

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

(ii)
- Calculation of Unearned finance income
  Annual lease payment = Rs. 6,52,190 / 3.169
  = Rs. 2,05,803 (approx.) **(1 M)**
- Gross investment in the lease
  = Total minimum lease payments + unguaranteed residual value.
  = (Rs. 2,05,803 x 4) + Rs. 70000
  = Rs. 8,23,212 + Rs. 70,000 **= Rs. 8,93,212** **(1 M)**
- Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.
  = Rs. 8,93,212 – Rs. 7,00,000
  (Rs. 6,52,190 + Rs. 47,810)
  = Rs. 1,93,212 **(1 M)**

Answer 2:

(a) (1) Computation of Amount of Debentures and Shares to be issued:

		Sun	**Neptune**
		Rs.	**Rs.**
(i)	**Average Net Profit**		
	Rs. (4,49,576-2,500+3,77,924)/3	**= 2,75,000**	
	Rs. (2,73,900+,3,42,100+3,59,000)/3		**= 3,25,000**

{2 Item x 1 M = 2 M}

(ii) Equity Shares Issued

(a) Ratio of distribution

Sun	:	Neptune
275	:	325

{1/2 M}

(b) Number

Sun	:	27,500
Neptune	:	32,500
		60,000

{1/2 M}

(c) Amount

	Sun	Neptune
	Rs.	**Rs.**
27,500 shares of Rs. 5 each	**1,37,500**	
32,500 shares of Rs. 5 each		**1,62,500**

{2 Item x 1/2 M = 1 M}

(iii)

Capital Employed (after revaluation of assets)	**Rs.**	**Rs.**
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750
	10,09,500	5,47,750
Less: Current Liabilities	-5,97,000	-1,80,250
	4,12,500	**3,67,500**

{2 Item x 3/4 M = 1.5 M}

(iv)

Debentures Issued		
8% Return on capital employed	**33,000**	**29,400**
15% Debentures to be issued to provide equivalent income:		
Sun: 33,000 × 100/15	**2,20,000**	
Neptune: 29,400 × 100/15		**1,96,000**

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

(2)

Balance Sheet of Jupiter Ltd.
As at 31st March 2021 (after amalgamation)

Particulars	Note No	Rs.
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	**3,00,000**
(b) Reserves and Surplus	2	**64,000**
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	**4,16,000**
(3) Current Liabilities		
(a) Other current liabilities		**7,33,900**
Total		**15,13,900**
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		**11,00,000**
(2) Current assets		
(a) Other current assets		**4,13,900**
Total		**15,13,900**

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

Notes to Accounts

		Rs.
1	Share Capital	
	Authorized	
	80,000 Equity Shares of Rs. 5 each	4,00,000

	Issued and Subscribed		
	60,000 Equity Shares of Rs. 5 each	**3,00,000**	**}{1/2 M}**
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2	Reserve and Surplus		
	Capital Reserve	**64,000**	**}{1/2 M}**
3	Long-term borrowings		
	Secured Loans		
	15% Debentures	**4,16,000**	**}{1/2 M}**

Working Notes:

		Sun	**Neptune**	**Total**
		Rs.	Rs.	Rs.
(1)	Purchase Consideration			
	Equity Shares Issued	1,37,500	1,62,500	3,00,000
	15% Debentures Issued	2,20,000	1,96,000	4,16,000
		3,57,500	3,58,500	7,16,000
(2)	Capital Reserve			
(a)	Net Assets taken over			
	Fixed Assets	7,10,000	3,90,000	11,00,000
	Current Assets	2,99,500	1,14,400*	4,13,900
		10,09,500	5,04,400	15,13,900
	Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
		4,55,850	3,24,150	7,80,000
(b)	Purchase Consideration	3,57,500	3,58,500	7,16,000
(c)	Capital Reserve [(a) - (b)]	**98,350**		
(d)	Goodwill [(b) - (a)]		**34,350**	
(e)	Capital Reserve [Final Figure(c) -(d)]			**64,000**

{3 Item x 1 M = 3 M}

* 1,57,750–43,350= 1,14,400
** 5,97,000–43,350= 5,53,650

Answer:

(b) Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

Rs. in lakhs

Interest on cash credits and overdraft :	(1800+70)	**= 1,870**
Interest on Term Loan	(480+40)	**= 520**
Income from bills purchased and discounted :	(700+36)	**= 736**
		3,126

{4 Item x 1 M = 4 M}

Answer 3:

(a) Adjusted revenue reserves of Neel Ltd.

	Rs.	**Rs.**
Revenue reserves as given		**3,57,000**
Add: Provision for doubtful debts [4,45,500 / 99 X 1]		**4,500**
		3,61,500
Less: Reduction in value of Inventory	17,000	
Advertising expenditure to be written off	15,000	**(32,000)**
Adjusted revenue reserve		**3,29,500**

5 items x ½ M

Note: Since Neel Ltd. follows FIFO basis, it is assumed that opening inventory has been sold out during the year 2015. Therefore, reduction in inventory would have been taken care of by sale value. Hence no adjustment has been made for the same. **{1/2 M}**

Restated Balance Sheet of Neel Ltd.
as at 31st December, 2016

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		**2,50,000**
(b) Reserves and Surplus	1	**3,29,500**
(2) Current Liabilities		
(a) Short term borrowings	2	**85,000**
(b) Trade Payables		**2,47,000**
(c) Short-term provision	3	**2,15,000**
Total		**11,26,500**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	**1,12,000**
(b) Non-current Investment		**2,00,000**
(2) Current assets		
(a) Inventories		**3,54,000**
(b) Trade Receivables		**4,50,000**
(c) Cash & Cash Equivalents		**1,500**
(d) Other current assets	5	**9,000**
Total		**11,26,500**

13 items x ½ M

Notes to Accounts

			Rs.
1.	**Reserves and Surplus**		
	Revenue Reserve (refer computation of adjusted revenue reserves of Neel Ltd)		**3,29,500**
2.	**Short term borrowings**		
	Bank overdraft		**85,000**
3.	**Short-term provision**		
	Provision for taxation		**2,15,000**
4.	**Tangible Assets**		
	Cost	1,60,000	
	Less: Depreciation to date	(48,000)	**1,12,000**
5.	**Other current assets**		
	Prepaid expenses (After adjusting advertising expenditure to be written off each year)		**9,000**

5 items x ½ M

Answer 3:

(b) Journal Entries in the books of Dee Limited

(in thousand Rs.)

	Particulars	Dr.	Cr.	
(i)	Bank Account Dr.	2,200		**{1/2 M}**
	Profit and Loss Account Dr.	800		
	To Investment Account		3,000	
	(Being the investments sold at loss for the purpose of buy-back)			
(ii)	Equity Share buy-back Account Dr.	2,500		**{1/2 M}**
	To Bank Account		2,500	
	(Being the payment made on buy-back)			

(iii)	Equity Share Capital Account	Dr.	500		
	Premium Payable on Buy-Back Account	Dr.	2,000		
	To Equity Shares Buy-Back Account			2,500	{1/2 M}
	(Being the buy-back amount allocated to equity share capital)				
(iv)	Securities premium Account	Dr.	2,000		
	To Premium payable on buy-back Account			2,000	
	(Being the premium payable on buy-back adjusted against securities premium account)				{1/2 M}
(v)	Revenue reserve Account	Dr.	300		
	To Capital Redemption Reserve Account			300	
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)				{1/2 M}

Balance Sheet of Dee Limited as at 1st April, 20X1
(After buy-back of shares)

(in thousand Rs.)

		Particulars	Notes	Rs.	
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	**2,200**	
	B	Reserves and Surplus	2	**6,900**	
2		**Current liabilities**			
	A	Trade Payables		**1,400**	
		Total		**10,500**	{9 Item x 1/2 = 4.5 M}
		Assets			
1		**Non-current assets**			
	A	Property, plant and Equipment		**9,300**	
2		**Current assets**			
	A	Inventories		**500**	
	B	Trade receivables		**200**	
	C	Cash and Cash equivalents		**500**	
		Total		**10,500**	

Notes to accounts

No.	Particulars		Rs.	
1	**Share Capital**			
	Authorized, issued and subscribed capital:			
	2,50,000 Equity shares of Rs. 10 each fully paid up		2,000	
	2,000, 10% Preference shares of Rs. 100 each		200	
	(Issued two months back for the purpose of buy-back)		--	}{1/2 M}
	Total		**2,200**	
2	**Reserves and Surplus**			
	Capital reserve		1,000	
	Capital redemption reserve		300	
	Securities Premium	2,200		
	Less: Premium payable on buy-back of shares	(2,000)	200	
	Revenue reserve	3,000		
	Less: Transfer to Capital redemption reserve	(300)	2,700	
	Profit and loss A/c	3,500		
	Less: Loss on investment	(800)	2,700	
	Total		**6,900**	}{1/2 M}

Answer 4:

(a) (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		{1 M}
To Discount on bills A/c			280	
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	{2 M}
”	To Profit and Loss A/c (Bal. Fig.)	306	2018-19	By Bills purchased and discounted	280	
		320			320	

Answer 5:

(a)

In the books of Star Ltd.
Journal Entries

	Particulars	Amount	Amount	
		Rs.	Rs.	
(i)	7% Preference share capital (Rs. 100) Dr.	9,00,000		{1 M}
	To 9% Preference share capital (Rs. 80)		7,20,000	
	To Capital reduction A/c		1,80,000	
	(Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)			
(ii)	Equity share capital A/c (Rs. 100 each) Dr.	10,00,000		{1 M}
	To Equity share capital A/c (Rs. 10 each)		1,00,000	
	To Capital reduction A/c		9,00,000	
	(Being reduction of nominal value of one share of Rs. 100 each to Rs. 10 each)			
(iii)	Bank A/c Dr.	50,000		{1 M}
	To Capital reduction A/c		50,000	
	(Being directors refunded the fee amount)			
(iv)	Trade payables A/c (Interest on debentures) Dr.	26,000		{1 M}
	To Capital reduction A/c		26,000	
	(Being interest forgone by the debenture holders)			
(v)	No entry required			{1 M}
(vi) a	‘B’ 6% Debentures A/c Dr.	3,50,000		{1 M}
	To Debentures holders A/c		3,50,000	
	(Being amount due to Debentures holders)			
b	Debentures holders A/c Dr.	4,40,000		{$1^{1/2}$ M}
	To Chennai Works A/c		4,25,000	
	To Equity share capital A/c		15,000	
	(Being Chennai works taken over and equity shares issued to ‘B’ 6% Debenture holders)			
c	Equity share of Zia ltd. A/c Dr.	90,000		{1 M}
	To Debentures holders A/c		90,000	
	(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)			
(vii) a	Chennai Works – Workmen Compensation Fund Dr.	4,000		{1 M}
	To Capital reduction A/c		4,000	
	(Being difference due to reduced amount of actual liability transferred to capital reduction account)			
b	Bank A/c Dr.	15,400		{1 M}
	To Investment for Workmen Compensation Fund		14,000	
	To Capital reduction A/c		1,400	
	(Being investment for Workmen Compensation Fund sold @ 10% profit)			

c	Trade Payables A/c	Dr.	15,400		{1 M}
	To Bank A/c			15,400	
	(Being part payment made to trade payables)				
(viii)	Capital reduction A/c	Dr.	2,10,000		{1 M}
	To Provision for Doubtful Debts A/c			20,000	
	To Inventory A/c			1,90,000	
	(Being assets revalued)				
(ix)	Capital reduction A/c	Dr.	5,50,000		{1 M}
	To Profit & Loss A/c			2,00,000	
	To PPE – Chennai Works			3,50,000*	
	(Being assets revalued and losses written off)				
(x)	Capital reduction A/c	Dr.	4,01,400		{1$^{1/2}$ M}
	To PPE – Bombay Works			2,67,600	
	To Capital reserve A/c			1,33,800	
	(Being assets revalued and remaining amount transferred to capital reserve account)				

Answer:

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.	
2% on Assets realised	37,50,000 x 2%	**75,000**	{1 M}
3% on payment made to Preferential creditors	1,12,500 x 3%	**3,375**	{1 M}
3% on payment made to Unsecured creditors (Refer W.N)		**58,882**	{1 M}
Total Remuneration payable to Liquidator		**1,37,257**	{1 M}

Working Note:

Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= Rs. 37,50,000 – Rs. 37,500 – Rs. 15,00,000 – Rs. 1,12,500 – Rs. 75,000 – Rs. 3,375

= Rs. 20,21,625.

Liquidator's remuneration

= 3/103 x Rs. 20,21,625 = **Rs. 58,882**

{1 M}

Answer 6:

(a) 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**	**{8 Item x 1/2 = 4 M}**
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**	

Answer:

(b) 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:

(c) **Statement showing computation of 'Net Owned Fund'**

		Rs. in 000	
Paid up Equity Capital		100	
Free Reserves		500	
		600	
Less: Deferred expenditure		(200)	
	A	**400**	**{1$^{1/2}$ M}**
Investments			
In shares of subsidiaries and group companies		100	
In debentures of subsidiaries and group companies		100	
	B	**200**	**{1$^{1/2}$ M}**
10% of A		40	
Excess of Investment over 10% of A (200-40)	C	**160**	**{1 M}**
Net Owned Fund [(A) - (C)] (400-160)		**240**	**{1 M}**

Answer:

(d) **In the books of ABC Ltd.**

Journal Entries

Date	**Particulars**	Dr. (Rs.)	Cr. (Rs.)	
31.3.20X1	Employees compensation expense account Dr. To Employee stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortized on straight line basis over 2½ years) (1,000 stock options × Rs. 120 / 2.5 years)	48,000	 48,000	**(½ M)**
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	48,000	 48,000	**(½ M)**

31.3.20X2	Employees compensation expenses account Dr. To Employee stock option outstanding account (Being compensation expense recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of Rs. 120 each, amortised on straight line basis over 2½ years) (1,000 stock options × Rs. 120/2.5 years)	48,000	48,000	**(½ M)**
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	48,000	48,000	**(½ M)**
1.3.20X3	Employee stock option outstanding account Dr. (W.N.1) To General Reserve account (W.N.1) (Being excess of employees compensation expenses transferred to general reserve account)	12,000	12,000	**(½ M)**
30.6.20X3	Bank A/c (600 × Rs. 40) Dr. Employee stock option outstanding account Dr. (600 × Rs. 120) To Equity share capital account (600×Rs. 10) To Securities premium account (600×Rs. 150) Being 600 employee stock option exercised at an exercise price of Rs. 40 each	24,000 72,000	6,000 90,000	**(½ M)**
01.10.20X3	Employee stock option outstanding account Dr. (W.N.2) To General reserve account (W.N.2) (Being ESOS outstanding A/c on lapse of 100 options at the end of exercise of option period transferred to General Reserve A/c)	12,000	12,000	**(½ M)**

Working Notes:

1. On 31.3.20X3, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any, to reflect expenses for the number of options that actually vested. Considering that 700 stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

No. of options actually vested (700 x 120)	Rs. 84,000	**(3/4 M)**
Less: Expenses recognized Rs. (48,000 + 48,000)	(Rs. 96,000)	
Excess expense transferred to general reserve	Rs. 12,000	

2. Similarly, on 1.10.20X3, Employee Stock Option Outstanding Account will be

No. of options actually vested (600 x 120)	Rs. 72,000	**(3/4 M)**
Less: Expenses recognized	(Rs. 84,000)	
Excess expense transferred to general reserve	Rs. 12,000	

Employee Stock Options Outstanding will appear in the Balance Sheet under a separate heading, between 'Share Capital' and 'Reserves and Surplus'.

Answer:
(e)

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}**

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