PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2023 EXAMINATION

A. Applicable for May, 2023 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Appendix "Schedule III to the Companies Act" in Module II of September, 2021 Edition. The students are advised to refer the link https://resource.cdn.icai.org/66657bos53803-mod2-appx.pdf for the revised content.

II. The Institute of Chartered Accountants of India revised the Guidance Note on Accounting for Share-based Payments in year 2020. This revised Guidance Note is applicable for the topic "Accounting for Employee Stock Option Plans" for May, 2023 Examination. The provisions of the Guidance Note cover employee stock option plans, the grant date in respect of which falls on or after 1 April 2021. An enterprise is not required to apply this Guidance Note to employee stock option plans to equity instruments that are not fully vested as on 1 April 2021. The chapter on "Employee Stock Option Plans" given in Module II of September, 2021 Edition of the Study Material is revised accordingly. The students are advised to refer link https://resource.cdn.icai.org/66641bos53803-cp3.pdf for the revised chapter.

III. Limited Liability Partnership (Amendment) Act, 2021

The Ministry of Law and Justice made amendments to the Limited Liability Partnership Act, 2008 (LLP Act) through the LLP (Amendment) Act, 2021. The relevant amendments (for para 1.8 "Issues related to Accounting in LLPs" of unit 1 of chapter 2 of the study material) can be given as follows:

In section 2 of the LLP Act, 2008, in sub-section (1), the following clause has been inserted:

"Small limited liability partnership" means a limited liability partnership—

(i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and

(ii) the turnover of which, as per the Statement of Accounts and Solvency for the

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immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or

Definition of business has been amended. As per the Amendment, definition of "business" includes every trade, profession, service [and occupation except any activity which the Central Government may, by notification, exclude].

Designated Partners

In section 7 of the LLP Act, 2008— (a) in sub-section (1), in the Explanation, for the words "eighty-two days during the immediately preceding one year", the words "twenty days during the financial year" shall be substituted. Thus now for the purposes of this section, the term resident in India means a person who has stayed in India for a period of not less than one hundred and twenty days during the financial year.

Every designated partner of a limited liability partnership shall obtain a Designated Partners Identification Number (DPIN) from the Central Government and the provisions of sections 153 to 159 (both inclusive) of the Companies Act, 2013 shall apply mutatis mutandis for the said purpose.

Financial Disclosures and Returns

In section 34 of the LLP Act, 2008, under sub-section (4), the following shall be added:

Provided that the Central Government may, by notification in the Official Gazette, exempt any class or classes of limited liability partnerships from the requirements of this sub-section.

For sub-section (5), the following sub-sections shall be substituted, namely:

"(5) Any limited liability partnership which fails to comply with the provisions of sub-section (3), such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for every designated partner.

(6) Any limited liability partnership which fails to comply with the provisions of sub-section (1), sub-section (2) and sub-section (4), such limited liability partnership shall be punishable with fine which shall not be less than twenty-five thousand rupees, but may extend to five lakh rupees and every designated partner of such limited liability partnership shall be punishable with fine which shall not be less than ten thousand rupees, but may extend to one lakh rupees."

Insertion of Section 34A: Accounting and Auditing Standards

The Central Government may, in consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013,—

(a) prescribe the standards of accounting; and

(b) prescribe the standards of auditing, as recommended by the Institute of Chartered Accountants of India constituted under section 3 of the Chartered Accountants Act, 1949, for a class or classes of limited liability partnerships.]

In section 35 of the LLP Act, 2008, the following shall be inserted:

[(2) If any limited liability partnership fails to file its annual return under sub-section (1) before the expiry of the period specified therein, such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for designated partners.]

IV. SLR holdings in Held to Maturity (HTM category)

(relevant for chapter 8 "Banking Companies" of the study material))

Vide circular RBI/2022-23/21; DOR.MRG.REC.14/21.04.141/2022-23 dated April 8, 2022, it has now been decided by the RBI to further enhance the existing HTM limit of 22 per cent of NDTL to 23 per cent of NDTL and allow banks to include securities acquired between April 1, 2022 and March 31, 2023 under the enhanced limit of 23 per cent. At present, banks have been granted a special dispensation of enhanced Held to Maturity (HTM) limit of 22 per cent of Net Demand and Time Liabilities (NDTL), for Statutory Liquidity Ratio (SLR) eligible securities acquired between September 1, 2020 and March 31, 2022, until March 31, 2023. The enhanced HTM limit of 23 per cent shall be restored to 19.5 percent in a phased manner, beginning from the quarter ending June 30, 2023, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2023 shall be progressively reduced such that the total SLR securities held in the HTM category as a percentage of the NDTL do not exceed:

(a) 22.00 per cent as on June 30, 2023

(b) 21.00 per cent as on September 30, 2023

(c) 20.00 per cent as on December 31, 2023

(d) 19.50 per cent as on March 31, 2024.

V. Revised Regulatory Framework for Non-Banking finance Companies

Pursuant to the announcement of Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs on 22 October 2021 to be effective from 01 October 2022, RBI has revised different facets of existing NBFC Classification and regulation like Capital Requirements, Governance Standards, Prudential Regulations, etc. based on four layers that are defined based on their size, activity, and perceived riskiness.

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These four layers are NBFC – Base Layer (NBFC-BL), then NBFC- Middle Layer (NBFC-ML), NBFC Upper Layer (NBFC-UL) and lastly NBFC – Top Layer (NBFC-TL).The Top layer is ideally expected to be empty and will be filled by RBI based on required need.

Details of NBFCs populating the various layers is mentioned below:

Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

Categorisation of NBFCs carrying out specific activity

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs:

(a) NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.

(b) NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.

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(c) The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

(d) Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

References to NBFC-ND, NBFC-ND-SI & NBFC-D - From October 01, 2022:

All references to NBFC-ND shall mean NBFC-BL and all references to NBFC-D and NBFC-NDSI shall mean NBFC-ML or NBFC-UL, as the case may be.

NOTE: September, 2021 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for May 2023 Examination.

B. <u>Not applicable for May, 2023 examination</u>

Non-Applicability of Ind AS for May, 2023 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May 2023 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of Partnership Firm

1. (a) P, Q and R are sharing profits and losses in the ratio 5:3:2. Due to finding of frauds committed by R during the year, it was decided to dissolve the partnership on 31st March, 2022. As on 31st March, 2022 their Balance Sheet was as under:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
Partner's Capital A/c		Plant & Machinery	6,00,000
P	4,50,000	Stock	4,27,500
Q	4,50,000	Investments	1,45,000
R	-	Debtors	2,10,000
General reserve	1,20,000	Cash	72,500
Trade creditors	2,35,000	R's Capital	75,000
Bills payable	1,00,000		

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Mrs. Q's loan	1,75,000		
Total	15,30,000	Total	15,30,000

Additional information are given as under:

(i) During the year R sold Investments costing of ₹ 45,000 at ₹ 56,000 and the said funds were transferred to his personal account. This transaction was not recorded in the firm's books.

(ii) A cheque for ₹ 30,000 was received from debtor, not recorded in the books and was misappropriated by R.

(iii) A Trade creditor agreed to takeover stock of the book value of ₹ 25,000 at ₹ 26,500. The rest of the Trade creditors were paid off at a discount of 2%.

(iv) The bills payable were settled at a discount of 2%.

(v) The expenses of dissolution amounted to ₹ 15,900.

(vi) The other assets realized were as follows:

Plant & Machinery :	5% above the book value
Stock :	Rest of the stock realized at a loss of ₹ 15,000
Investments :	Rest of investments were sold at a profit of ₹ 5,600
Debtors :	Rest of the debtors were realized at a discount of 12%.

(vii) Q agreed to takeover loan of Mrs. Q of ₹ 1,75,000.

(viii) The realizable value of R's private assets would only be ₹ 20,000.

Applying the principles laid down in Gamer vis. Murray, prepare Realization Account, Cash Account and Partner's Capital Accounts.

Limited Liability Partnerships

(b) Under what circumstances, an LLP can be wound up by the Tribunal?

Conversion of Partnership firms into a company

2. M/s Happy Makers is a partnership firm consisting of Mr. Happy, Mr. Yuvi and Mr. Mohan who share profits and losses in the ratio of 2:2:1 and Global Ltd. is a company doing similar business.

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Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2022:

Equity & Liabilities	M/s Happy Makers (₹)	Global Ltd. (₹)	Assets	M/s Happy Makers (₹)	Global Ltd. (₹)
Equity share capital:			Plant & Machinery	7,50,000	24,00,000
Equity shares of ₹ 10 each		30,00,000	Furniture & Fixtures	75,000	3,37,500
Partners' capitals:			Inventories	3,00,000	12,75,000
Mr. Happy	3,00,000		Trade receivables	3,00,000	12,37,500
Mr. Yuvi	4,50,000		Cash at bank	15,000	6,00,000
Mr. Mohan	1,50,000		Cash in hand	60,000	1,50,000
General reserve	1,50,000	10,50,000			
Trade payables	4,50,000	19,50,000			
	15,00,000	60,00,000		15,00,000	60,00,000

On the Balance Sheet date it was decided that the firm M/s Happy Makers be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by Global Ltd. by issuing 75,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of M/s Happy Makers agreed to divide the shares issued by Global Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of M/s Happy Makers includes ₹ 1,50,000 payable to Global Ltd. An unrecorded liability of ₹ 37,500 of M/s Happy Makers must also be taken over by Global Ltd. Assumed that cash at bank has been withdrawn to pay to Partner Mr. Yuvi.

Prepare:

(1) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of M/s Happy Makers.

(2) Pass journal entries in the books of Global Ltd. for acquisition of M/s Happy Makers and draw the Balance Sheet of Global Ltd. after the takeover.

Accounting for ESOPs

3. A Limited grants 5,000 options to its employees on 1.04.2018 at ₹ 90/-, when the market price was ₹ 150/-. The vesting period is 3 years. The maximum exercise period is one year. 4,500 options were exercised on 31.03.2022, the remaining options lapsed. Journalize the transactions, if the face value of equity shares is ₹ 10/- per share.

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Buy Back of Securities

4. Pay Limited provides you with the following information as at 31st March, 2022:

		(₹ in Lakhs)
Share Capital:		
Authorised		300
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	125	
Equity shares of ₹ 10 each fully paid	175	300
Reserves and surplus:		
Capital reserve	35	
Securities premium	105	
Revenue reserves	460	
Profit and loss account	50	650
Current liabilities and provisions		50
Fixed assets: cost	100	
Less: Accumulated depreciation	(90)	10
Non-current investments at cost (Market value₹ 400 Lakhs)		200
Current assets		790

(i) The company redeemed preference shares at a premium of 4% on 1st April, 2022.

(ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2022.

Equity Shares with Differential Rights

5. Explain the meaning of equity shares with differential rights. Also explain the conditions under Rule 4 under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

Amalgamation of Companies

6. The following information is being provided by VT Ltd. and MG Ltd. as on 31st March, 2022:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000

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Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

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You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

Internal Reconstruction of a Company

7. The following information is being provided by Fortunate Ltd. as on 31st March, 2022.

Particulars	Amount (₹)
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account (Dr. balance)	5,63,750
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

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(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

Liquidation of Company

8. BT Ltd. went into Voluntary Liquidation on 31st March, 2022. It provides the following information on that date:

Liabilities	In ₹
Issued & Subscribed Capital	
10,000 12% cumulative preference shares of ₹ 100 each, fully paid	10,00,000
10,000 Equity Shares of ₹ 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of ₹ 100 each 60 per share paid up	12,00,000
Profit & Loss Account (Dr. balance)	5,25,000
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of ₹ 75,000. Balance creditors are discharged subject to 5% discount.

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Assets are realised as under:

	In ₹
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

- Expenses of liquidation amounted to ₹ 45,000.
- The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank).
- All payments were made on 30th June, 2022.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2022. Working Notes should form part of the answer.

NBFCs

9. Explain the criterion of income recognition in the case of Non Banking Financial Companies.

Banking Companies

10. (i) The following is an extract of Trial Balance of SM Bank, an overseas bank as on 31st March, 2022.

	Dr. ₹	Cr. ₹
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31st March, 21		26,592

An analysis of bill discounted is as follows :

Amount in ₹	Due Date	Rate of Discount
1,46,200	4th May, 2022	15
2,30,400	12th May, 2022	15
4,35,900	28th May, 2022	15
4,36,200	18th June, 2022	16
2,68,100	4th July, 2022	16

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You are required to calculate Rebate on Bills Discounted as on 31st March, 2022 and show necessary Journal Entries.

(ii) The following information are also given for SM Bank :

Assets		₹ in Lakhs
Standard		75,00
Sub-Standard		60,00
Doubtful:	for 1 Year (fully secured)	12,00
	for 1 to 3 Year (fully secured)	9,00
	for more than 3 Years	9,00
Loss Assets		15,00

Additional Information:

(1) Standard Assets includes ₹ 15,00 Lakhs Advances to Commercial Real Estate (CRE).

(2) Out of ₹ 60,00 Lakhs of Sub-Standard Asset ₹ 20,00 Lakhs are unsecured. Unsecured amount includes ₹ 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.

(3) Doubtful Asset for more than 3 Years includes ₹ 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is ₹ 150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of SM Bank.

Consolidated Financial Statements

11. H Ltd. acquired 70% of equity share of S Ltd. as on 1st January, 2016 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2020, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2021 and 2022, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

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AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

12. State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

    (i) Actual bad debts turning out to be more than provisions.

    (ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.

    (iii) Government grant receivable as compensation for expenses incurred in previous accounting period.

    (iv) Treating operating lease as finance lease.

    (v) Capitalisation of borrowing cost on working capital.

    (vi) Legislative changes having long term retrospective application.

    (vii) Change in the method of depreciation from straight line to WDV.

    (viii) Government grant becoming refundable.

    (ix) Applying 10% depreciation instead of 15% on furniture.

    (x) Change in useful life of fixed assets.

AS 7 Construction Contracts

13. On 1st December, 2021, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2022, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2022 as per provisions of AS-7?

AS 9 Revenue Recognition

14. PQR Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2021-22 the company wants to recognize the entire interest receivable. Do you agree?

AS 17 Segment Reporting

15. The Senior Accountant of AMF Ltd. gives the following data regarding its five segments:

(₹ in lakhs)

Particulars	P	Q	R	S	T	Total
	(₹)	(₹)	(₹)	(₹)	(₹)	(₹)
Segment Assets	80	30	20	20	10	160

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Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS-17 'Segment Reporting'.

AS 18 Related Party Disclosures

16. Is remuneration paid to Board of Directors a related party transaction? Explain.

AS 19 Leases

17. WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

    You are required to calculate the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

AS 20 Earnings Per Share

18. Following information is supplied by K Ltd.:

    Number of shares outstanding prior to right issue - 2,50,000 shares.

    Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

    Right issue price - ₹ 98

    Last date of exercising rights - 30-06-2021.

    Fair value of one equity share immediately prior to exercise of right on 30-06-2021 is ₹ 102.

    Net Profit to equity shareholders:

    2020-2021 - ₹ 50,00,000

    2021-2022 -₹ 75,00,000

    You are required to calculate the basic earnings per share as per AS-20 Earnings per Share.

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AS 24 Discontinuing Operations

19. A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	*Clothes washing Bar (Per month)*
January 2021 - September 2021	2,00,000	2,00,000
October 2021 - December 2021	1,00,000	3,00,000
January 2022 - March 2022	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2021 to this effect. The company follows calendar year as its accounting year.

You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

AS 26 Intangible Assets

20. (a) As per provisions of AS-26, how would you deal to the following situations:

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2021-22, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

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Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	**Amount (₹)**
11^{th} Feb, 2020	60,000
25th Dec, 2020	40,000
04^{th} Oct, 2021	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31^{st} March, 2021 and 31^{st} March, 2022. Also compute amount to be debited to P & L account for the year ended 31^{st} March, 2022.

SUGGESTED ANSWERS

1. (a) **Realization account**

Particulars	₹	*Particulars*		₹
To Plant and Machinery	6,00,000	By Trade creditors		2,35,000
To Stock	4,27,500	By Bills payable		1,00,000
To Investment	1,45,000	By Cash-		
To Debtors	2,10,000	Plant and machinery	6,30,000	
To Cash-creditors paid (W.N.1)	2,04,330	Stock (W.N.4)	3,87,500	
To Cash-expenses	15,900	Investments (W.N.2)	1,05,600	
To Cash-bills payable (1,00,000-2,000)	98,000	Debtors (W.N. 3)	1,58,400	12,81,500
To Q's capital account	1,75,000	By Mrs. Q's Loan account		1,75,000
To Partners' Capital A/cs:		By Debtors-unrecorded		30,000
P 885		By Investments-unrecorded		56,000
Q 531				
R 354	1,770			
	18,77,500			18,77,500

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Cash Account

Particulars		Amount ₹	Particulars			Amount ₹
To	Balance b/d	72,500	By	Realization A/c- creditors paid		2,04,330
To	Realization A/c– assets realized		By	Realization A/c- bills payable		98,000
	Plant and machinery	6,30,000	By	Realization A/c- expenses		15,900
	Stock	3,87,500	By	Capital accounts:		
	Investments (W.N.2)	1,05,600		P	4,51,157	
	Debtors (W.N. 3)	1,58,400		Q	6,04,613	10,55,770
To	R's capital A/c	20,000				
		13,74,000				13,74,000

Partners' Capital Accounts

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Balance b/d			75,000	By Balance b/d	4,50,000	4,50,000	-
To Debtors-misappropriation			30,000	By General reserve	60,000	36,000	24,000
To Investment-misappropriation			56,000	By Mrs. Q loan		1,75,000	
To R's capital A/c (W.N. 5)	59,728	56,918		By Realization A/c (profit)	885	531	354
To Cash A/c	4,51,157	6,04,613		By Cash A/c			20,000
				By P's capital A/c			59,728
				By Q's capital A/c			56,918
	5,10,885	6,61,531	1,61,000		5,10,885	6,61,531	1,61,000

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Working Notes:

1. Amount paid to creditors

	₹
Book value	2,35,000
Less: Creditors taking over Stock	(26,500)
	2,08,500
Less: Discount @ 2%	(4,170)
	2,04,330

2. Amount received from sale of investments

	₹
Book value	1,45,000
Less: Misappropriated by R	(45,000)
	1,00,000
Add: Profit on sale of investments	5,600
	1,05,600

3. Amount received from debtors

	₹
Book value	2,10,000
Less: Unrecorded receipt	(30,000)
	1,80,000
Less: Discount @ 12%	(21,600)
	1,58,400

4. Amount received from sale of stock

	₹
Book value	4,27,500
Less: Taken by creditors	(25,000)
	4,02,500
Less: Loss on stock	(15,000)
	3,87,500

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5. **Deficiency of R**

	₹
Balance of capital as on 31st March, 2022	75,000
Debtors-misappropriation	30,000
Investment-misappropriation	56,000
	1,61,000
Less: Realization profit	(354)
General reserve	(24,000)
Contribution from private assets	(20,000)
Net deficiency of capital	1,16,646

The deficiency of ₹ 1,16,646 in R's capital account has been shared by other partners P, Q in their capital ratio (after transfer of general reserve to capital accounts i.e. 5,10,000: 4,86,000). Hence, P's share of deficiency = [1,16,646 x (510/996)] = ₹ 59,728 and Q's share of deficiency = [1,16,646 x (486/996)] = ₹56,918.

(b) An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

2. (i) In the books of M/s Happy Makers

Realisation Account

		₹				₹
To	Plant & Machinery	7,50,000	By	Trade payable		4,50,000
To	Furniture & Fixture	75,000	By	Global Ltd. (Refer W.N.)		9,00,000
To	Inventories	3,00,000	By	Partners' Capital Accounts (loss):		
To	Trade receivables	3,00,000		Mr. Happy's Capital A/c	30,000	
				Mr. Yuvi's Capital A/c	30,000	

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		Mr. Mohan's Capital A/c	15,000	75,000
	14,25,000			14,25,000

Partners' Capital Accounts

	Mr. Happy	Mr. Yuvi	Mr. Mohan		Mr. Happy	Mr. Yuvi	Mr. Mohan
	₹	₹	₹		₹	₹	₹
To Realisation A/c	30,000	30,000	15,000	By Balance b/d	3,00,000	4,50,000	1,50,000
To Shares in Global Ltd.	3,60,000	3,60,000	1,80,000	By General Reserve	60,000	60,000	30,000
To Cash	-	1,20,000	-	By Cash	30,000	-	15,000
	3,90,000	5,10,000	1,95,000		3,90,000	5,10,000	1,95,000

Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	60,000	15,000	By Cash A/c (Contra)		15,000
To Bank A/c (Contra)	15,000		By Mr. Yuvi	1,20,000	
To Mr. Happy	30,000				
To Mr. Mohan	15,000				
	1,20,000	15,000		1,20,000	15,000

(ii) Journal Entries in the Books of Global Ltd.

			Dr. (₹)	*Cr. (₹)*
1.	Business Purchase Account	Dr.	9,00,000	
	To Liquidators of M/s Happy Makers			9,00,000
	(Being business of M/s Happy Makers purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	7,50,000	
	Furniture and Fixture A/c	Dr.	75,000	
	Inventories A/c	Dr.	3,00,000	
	Trade Receivables A/c	Dr.	3,00,000	
	To Trade Payables			4,50,000
	To Unrecorded Liability			37,500
	To Business Purchase Account			9,00,000
	To Capital Reserve (B.F.)			37,500
	(Being take over of all assets and liabilities)			

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3.	Liquidators of M/s Happy Makers	Dr.	9,00,000	
	To Equity Share Capital Account			7,50,000
	To Securities Premium Account			1,50,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,50,000	
	To Trade Receivables Account			1,50,000
	(Being mutual owing eliminated)			

Working Note:

Computation of purchase consideration:

75,000 Equity shares of ₹ 12 each = ₹ 9,00,000

Equity shares to be given to partners :

Mr. Happy	=	30,000 Shares @ ₹ 12 = ₹ 3,60,000
Mr. Yuvi	=	30,000 shares @ ₹ 12 = ₹ 3,60,000
Mr. Mohan	=	15,000 shares @ ₹ 12 = ₹ 1,80,000

Balance Sheet of Global Ltd. (After takeover of M/s Happy Makers)

As on 31st March, 2022

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	37,50,000
	B	Reserves and Surplus	2	12,37,500
2		Non-current liabilities		
3		Current liabilities		
	A	Trade Payables		22,50,000
	B	Others (Unrecorded liability)		37,500
		Total		72,75,000
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	35,62,500

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2		Current assets		
	A	Inventories		15,75,000
	B	Trade receivables		13,87,500
	C	Cash and cash equivalent	4	7,50,000
		Total		72,75,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	3,75,000 Equity Shares of ₹ 10 each fully paid (75,000 shares were issued in consideration other than for cash)	37,50,000
2	Reserves and Surplus	
	Securities Premium	1,50,000
	General Reserve	10,50,000
	Capital Reserve	37,500
		12,37,500
3	Property, Plant and Equipment	
	Plant & Machinery	31,50,000
	Furniture & Fixtures	4,12,500
		35,62,500
4.	Cash & Cash Equivalent	6,00,000
	Cash at Bank	1,50,000
	Cash in Hand	7,50,000

3. Journal Entries in the books of A Ltd.

Date	*Particulars*	*Dr. (₹)*	*Cr. (₹)*
31.3.2019	Employees compensation expenses account Dr.	1,00,000	
	To Employee stock option outstanding account		1,00,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight		

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	line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account	Dr.	1,00,000	
	To Employees compensation expenses account			1,00,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2020	Employees compensation expenses account	Dr.	1,00,000	
	To Employee stock option outstanding account			1,00,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortised on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account	Dr.	1,00,000	
	To Employees compensation expenses account			1,00,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2021	Employees compensation expenses account		1,00,000	
	To Employee stock option outstanding account			1,00,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account		1,00,000	
	To Employees compensation expenses account			1,00,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2022	Bank A/c (4,500 × ₹ 90)	Dr.	4,05,000	
	Employee stock option outstanding account (4,500 × ₹ 60)	Dr.	2,70,000	

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	To Equity share capital account (4,500 × ₹ 10)		45,000
	To Securities premium account (4,500 x ₹ 140)		6,30,000
	(Being 4,500 employee stock option exercised at an exercise price of ₹ 90 each)		
31.3.2022	Employee stock option outstanding account Dr. (500x ₹60)	30,000	
	To General reserve account		30,000
	(Being ESOS outstanding A/c on lapse of 500 options at the end of exercise of option period transferred to General Reserve A/c)		

4. (i) Journal entries in the books of Pay Ltd. *₹ in lakhs*

	Particulars		*Debit*	*Credit*
1st April, 2022	11% Preference share capital A/c	Dr.	125	
	Premium payable on Redemption of Preference Shares	Dr.	5	
	To Preference shareholders A/c			130
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	130	
	To Bank A/c			130
	(Being payment made to shareholders)			
	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ ₹ 40 per share)			
	Equity share capital A/c (2.5 lakh x ₹ 10)	Dr.	25	
	Premium payable on buy- back A/c (2.5 lakh x ₹ 30)	Dr.	75	
	To Shares buy back A/c			100
	(Being cancellation of shares bought back)			

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	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125 + 25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy- back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

*Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.

(ii) Balance Sheet of Pay Ltd as at 1.4.2022

Particulars	*Note No*	*₹ In lakhs*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	150
(b) Reserves and Surplus	2	570
(2) Current Liabilities		50
Total		770
II. Assets		
(1) Non-current assets		
(a) Property, plant and Equipment	3	10
(b) Non-current investments -Investment at cost Market value ₹ 400 crores)		200
(2) Current assets	4	560
Total		770

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Notes to Accounts

1.	Share Capital			*₹ In lakhs*
	Authorised, Issued and Subscribed:			
	Equity shares of ₹ 10 each			150
2.	Reserves and Surplus			
	Capital reserve		35	
	Capital redemption reserve		150	
	Securities premium	105		
	Less: Utilisation for buy back and redemption of shares	(80)	25	
	Revenue Reserve	460		
	Less: transfer to Capital redemption reserve	(150)	310	
	Profit and Loss Account balance		50	570
3.	Property, plant and equipment			
	Cost		100	
	Less: Provision for depreciation		(90)	10
4.	Current assets			
	Current assets as on 31.3.2022		790	
	Less: Bank payment for redemption and buy back		(230)	560

5. Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise.

In exercise of the power conferred under the Companies Act, the Central Government announced Companies (**Share Capital and Debentures**) Rules, 2014, to deal with equity shares with differential rights.

The rules lay down the following conditions to be compulsorily complied with:

- The articles of association of the company authorizes the issue of shares with differential rights;
- The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;

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- The voting power in respect of shares with differential rights shall not exceed ***seventy four percent*** of the total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- The company has ***not defaulted in filing*** financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- The company has no ***subsisting default in the payment*** of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- The company has not ***defaulted in payment*** of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

  Provided that a company may issue equity shares with differential rights upon expiry of five years from the end of financial year in which such default was made good.
- The ***company has not been penalized*** by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

6. (i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	*Cr.* ₹
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			

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Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures	Dr.	36,000	

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To 12% Debentures			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e.	₹ 8,00,000	(i)
For 10% preference shares, to be paid at 10% discount		
₹ 2,00,000x 90/100	₹ 1,80,000	(ii)
Consideration amount [(i) + (ii)]	₹ 9,80,000	

7. **In the books of Fortunate Ltd.**

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			

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3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital (₹ 50)			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			
7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced)
as on 31.3.2022

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1.		Shareholders' funds		
	a	Share capital	1	15,12,500

2.		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3.		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1.		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2.		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1.	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2.	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4.	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

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8. **BT Limited**

Liquidator's Statement of Account

Receipts		₹	*Payments*		₹
To Assets realized:			By Liquidation expenses		45,000
Bank		75,700	By Preferential creditors		75,000
Other assets:			By Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By Debenture holders:		
Plant & Machinery	9,00,000		Debentures	10,00,000	
Furniture	2,85,000		Interest accrued	1,20,000	
Patents	90,000		Interest 1-4-22 to 30-6-22	30,000	11,50,000
Stock	2,80,000		By Unsecured creditors		7,36,250
Trade receivables	3,15,000	43,20,000	By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	1,20,000	11,20,000
					32,55,850
			By Equity shareholders -		
			₹ 32.995 on 20,000 shares		6,59,900
			₹ 47.995 on 10,000 shares		4,79,950
		43,95,700			43,95,700

Working Notes:

(1) Liquidator's remuneration 43,20,000 × 3/100 =₹ 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2022 to 30-6-2022

10,00,000 x 12% x3/12 = ₹ 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000) ₹ 19,50,000

Less: Balance available after payment to unsecured and preference shares

(43,95,700 — 32,55,850) ₹ (11,39,850)

₹ 8,10,150

Loss to be born by 30,000 equity shares

Loss per share ₹ 27.005

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Hence, Refund for share on ₹ 60 paid share (60 - 27.005) ₹ 32.995

Refund for share on ₹ 75 paid (75 - 27.005) ₹ 47.995

9. Income Recognition in case of NBFC

(1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

(3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became nonperforming and remaining unrealized, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

10. (i) Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2022	Rate of discount	Discount Amount
1,46,200	4.5.22	(30+ 4) = 34	15%	2,043
2,30,400	12.5.22	(30+12) = 42	15%	3,977
4,35,900	28.5.22	(30+28) = 58	15%	10,390
4,36,200	18.6.22	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.22	(30+ 31+30+4) = 95	16%	11,165
15,16,800	Rebate on bills discounted on 31.3.2022			42,681

In the books of SM Bank Ltd.
Journal Entries

(i)	Rebate on bills discounted Account	Dr.	26,592	
	To Discount on bills Account			26,592
	(Being opening balance of rebate on bills discounted account transferred to discount on bills account)			
(ii)	Bills purchased & discounted Account	Dr.	15,16,800	
	To Discount on bills Account			1,26,859
	To Clients Account			13,89,941
	(Being bills purchased and discounted during the year)			

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(iii)	Discount on bills Account	Dr.	42,681	
	To Rebate on bills discounted Account			42,681
	(Being provision made on 31st March, 2022)			
(iv)	Discount on bills Account	Dr.	1,10,770	
	To Profit and loss Account*			1,10,770
	[Being transfer of discount on bills, of the year, to profit and loss account]			

*Credit to Profit and Loss A/c will be as follows:

₹ (1,26,859 + 26,592 – 42,681) = ₹ 1,10,770

(ii) Statement showing the amount of provisions on Assets

			(₹ in lakhs)
Assets	*Amount*	*% of provision*	*Provision*
Standard:			
Advances to CRE	15,00	1	15
Others	60,00	.4	24
Sub-standard:			
Secured	40,00	15	6,00
Unsecured- Others	15,00	25	3,75
Unsecured infrastructure	5,00	20	1,00
Doubtful Secured:			
up to one year	12,00	25	3,00
For more than 1 year up to 3 years	9,00	40	3,60
More than 3 years	4,00	W.N.1	2,75
Doubtful unsecured (more than 3 years)	5,00	100	5,00
Loss	15,00	100	15,00
Total Provision Required			40,49

Working Note:

Provision required where assets are ECGC covered

	₹ In Lakhs
Outstanding balance (ECGC Covered)	4,00
Less: Value of security	1,50

Unrealised balance	2,50
Less: ECGC Cover @ 50%	1,25
Net Unsecured Balance	1,25
Provision for unsecured portion @100%	1,25
Provision for secured portion @100%	1,50
Total Provision to be made	2,75

11. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Year	*Profit / (Loss)*	*Minority Interest (30%)*	*Additional Consolidated P & L (Dr.) or Cr.*	*Minority's Share of losses borne by H Ltd.*		*Cost of Control*
				₹	*Balance*	
At the time of acquisition on 1.1.2016		1,62,000 (W.N.)	-			
2016	(1,25,000)	(37,500)	(87,500)			1,22,000 (W.N.)
Balance		1,24,500				
2017	(2,00,000)	(60,000)	(1,40,000)			1,22,000
Balance		64,500				
2018	(2,50,000)	(75,000)	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co.	10,500	(10,500)	10,500	10,500	
Balance		Nil	(1,85,500)			
2019	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by	18,000	(18,000)	18,000	28,500	

	Holding Co.					
Balance		Nil	(60,000)			
2020	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
Balance		Nil	25,000			
2021	50,000	15,000	35,000	(15,000)	6,000	1,22,000
		(15,000)	15,000			
Balance		Nil	50,000			
2022	75,000	22,500	52,500	(6,000)	Nil	1,22,000
		(6,000)	6,000			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2016

		Share of Holding Co.	*Minority Interest*
	100%	*70%*	*30%*
	(₹)	*(₹)*	*(₹)*
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	28,000	12,000
		3,78,000	1,62,000
Less: Cost of investment		(5,00,000)	
Cost of Control		1,22,000	

12. Classification of given items is as follows:

Sr. No.	Particulars	Remarks
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates

(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy
(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items
(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of fixed assets	Change in Accounting Estimates

13.

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	15.10
Total estimated cost of construction	47.60

Percentage of completion till date to total estimated cost of construction

$= (32.50/47.60)\times100 = 68.28\%$

Proportion of total contract value recognised as revenue for the year ended 31st March, 2022 per AS 7 (Revised)

= Contract price x percentage of completion

= ₹ 45 lakh x 68.28% = ₹ 30.73 lakhs.

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

According to of AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

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14. As per AS 9 'Revenue Recognition', where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g. for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments.

Thus, PQR Ltd. cannot recognise the interest amount unless the company actually receives it. 10% rate of recovery on overdue outstanding is also an estimate based on previous record and is not certain. Hence, the company is advised to recognise interest receivable only on receipt basis.

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

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

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

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

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

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

Accordingly,

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

(b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).

(c) On the basis of asset criteria, all segments except T are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

16. In case of a Company, the Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without

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any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per Companies Act, 2013, a related party includes a director or his relative. The Act, defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as related party transaction.

17. (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.5– ₹ 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500
Add: Unguaranteed residual value	1,33,500
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.5+ ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

18. $$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{102 \times 2{,}50{,}000 \text{ Shares} + ₹\ 98 \times 1{,}00{,}000 \text{ shares}}{3{,}50{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = 102/100.86 = 1.01$$

Computation of earnings per share:

EPS for the year 2020-21 as originally reported: ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 2020-21 restated for rights issue: =₹ 50,00,000/ (2,50,000 shares x 1.01)

= ₹ 19.80

EPS for the year 2021-22 including effects of rights issue:

EPS = 75,00,000/3,25,625* = ₹ 23.03

** [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 shares*

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

19. 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

(ii) that represents a separate **major line** of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

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;

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. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

20. **(a)** As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 2022 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense

(iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

(b) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2021 = ₹ 60,000 x .02 + ₹ 40,000 x .03
= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st March, 2022 = ₹ 40,000 x .02 + ₹ 1,35,000 x .03
= ₹ 800 + ₹ 4,050 = ₹ 4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2022

	₹
Balance of provision required as on 31.03.2022	4,850
Less: Opening Balance as on 1.4.2021	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2022 in respect of sales amounting ₹ 60,000 made on 11th February, 2020 as the warranty period of 2 years has already expired.

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