(GI-2, GI-6, GI-7, VI-1, VDI-1, DRIVE & FMT)

DATE: 03.10.2023 MAXIMUM MARKS: 100 TIMING: 3¼ Hours

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) 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.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. **{2 M}**

Accordingly,

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

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments. **{2 M}**

Since all the segments are covered in atleast 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 'A' is reportable is wrong. **{1 M}**

Answer:

(b) (i) The lease is a finance lease if X = Y, or if X substantially equals Y. **{1 1/2 M}**

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term. **{2 M}**

(iii) Since the asset is procured only for the use of lessee, it is a finance lease. **{1 1/2 M}**

Answer:

(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) Calculation of difference between taxable income and accounting income

Particulars	Amount (Rs.)
GST Liability debited in books	5,00,000
Less: GST Liability allowed under Income Tax Act (Section 43B)	Nil
Timing difference	**5,00,000**

{3 M}

Tax expense is less than the current tax due to timing difference. Therefore, deferred tax Asset = 30% x 5,00,000 = **1,50,000** **}{2 M}**

Answer 2:

(a) Statement showing distribution of cash amongst the partners

		Creditors	B's Loan	A	B	C
2020		**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
June 30						
Balance b/d		30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (Rs. 10,800 – Rs. 5,400)		5,400	-	-	-	-
Balances unpaid		24,600	10,000	76,000	48,000	36,000
July 5						
1st Instalment of Rs. 25,200		23,600	1,600	-	-	-
Discount received on full settlement		1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realization A/c		1,000				
		Nil				
August 30						
2nd instalment of Rs. 60,000 (W.N. 2)			8,400	32,640	4,640	14,320
Balance unpaid			Nil	43,360	43,360	21,680
September 15						
Amount realised	80,000					
Add: Balance out of the Provision for Expenses A/c	1,400					
	81,400			32,560	32,560	16,280
Amount unpaid being loss on Realization in the ratio of 2 : 2 : 1				**10,800**	**10,800**	**5,400**

{3 Item x 2 M = 6 M}

Working Notes:

1. Highest relative capital basis

		A	B	C
		Rs.	**Rs.**	**Rs.**
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1

3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	**28,000**	Nil	**12,000**
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	**4,000**	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First Rs. 4,000 (2 : 0 : 0)	4,000	-	-
	Next Rs. 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over Rs. 40,000 (2 : 2 : 1)			

{2 Item x $1^{1/2}$ M = 3 M}

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

2. Distribution of Second instalment

		Creditors	A	B	C
First	Rs. 8,400	8,400	-	-	-
Next	Rs. 4,000 (2 : 0 : 0)		4,000	-	-
Next	Rs. 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance	Rs. 11,600 (2 : 2 : 1)		4,640	4,640	2,320
	60,000	8,400	32,640	4,640	14,320

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

Answer:

(b) Garner vs. Murray rule: When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution. **{2 M}**

Non-Applicability of Garner vs Murray rule:

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

Answer:

(c) Amount receivable from/returnable to Equity Shareholders

Total equity capital - paid up	Rs. 1,48,000
Less: Balance available after payment to unsecured and preference shares (3,50,000 — 2,42,500)	Rs. (1,07,500)
Loss to be born by 2,000 equity shares	Rs. 40,500
Loss per share	**Rs. 20.25** **}{1 M}**

Hence,
Amount refunded on Rs. 65 paid share 65 - 20.25 per share = **Rs. 44.75** }{1 M}
Amount refunded on Rs. 80 paid share 80 - 20.25 per share= **Rs. 59.75** }{1 M}

Working note:
Liquidator's Statement of Account

	Rs.		**Rs.**
To Assets realized	3,50,000	By Liquidation Expenses	8,000
		By Secured bank loan	60,000
		By Preferential creditors (salary of 3 clerks at Rs. 500 per month for three months)	4,500
		By Unsecured creditors	70,000
		By Preference Shareholders	1,00,000
			2,42,500
		By Equity Shareholders	
		Rs. 59.75 on 1,200 shares	71,700
		Rs. 44.75 on 800 shares	35,800
	3,50,000		3,50,000

{1 M}

Answer 3:

(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		

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

equivalent income:		
Sun: 33,000 × 100/15	**2,20,000**	
Neptune: 29,400 × 100/15		**1,96,000**

(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**	

{3 Item x 1 M = 3 M}

(e)	Capital Reserve [Final Figure(c) -(d)]			**64,000**

* 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 4:

(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:

(b) Journal Entries in the books of Dee Limited

(in thousand Rs.)

	Particulars		Dr.	Cr.
(i)	Bank Account	Dr.	2,200	
	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	
	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
	(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)			
(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}
{1/2 M}
{1/2 M}
{1/2 M}
{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**

{9 Item x 1/2 = 4.5 M}

		Total		**10,500**
		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)		--
	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} }{1/2 M}

Answer 5:

(a) Journal Entries in the books of Shine Ltd.

		Rs. '000	Rs. '000
(i)	Equity share capital (Rs. 10) A/c Dr.	35,000	
	To Equity Share Capital (Rs. 4) A/c		14,000
	To Capital Reduction A/c		21,000
	(Being conversion of equity share capital of Rs. 10 each into Rs. 4 each as per reconstruction scheme)		
(ii)	8% Cumulative Preference Share capital (Rs. 100) A/c Dr.	17,500	
	To 8% Cumulative Preference Share Capital (Rs. 60) A/c		10,500
	To Capital Reduction A/c		7,000
	(Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)		
(iii)	6% Debentures (Rs. 100) A/c Dr.	14,000	
	To 9% Debentures (Rs. 80) A/c		11,200
	To Capital Reduction A/c		2,800
	(Being 9% debentures of Rs. 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	7,000	
	To Equity Share Capital (Rs. 4) A/c		3,500

{1 M} {1 M} {1 M} {1 M}

	To Capital Reduction A/c		3,500	
	(Being a creditor of Rs. 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of Rs. 4 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c Dr.	350		{1 M}
	Capital Reduction A/c Dr.	175		
	To Liability for Taxation A/c		525	
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Liability for Taxation A/c Dr.	525		{1 M}
	To Current Assets (Bank A/c)		525	
	(Being the payment of tax liability)			
(vii)	Capital Reduction A/c Dr.	34,125		{2 M}
	To P & L A/c		2,100	
	To PPE A/c		8,750	
	To Current Assets A/c		18,725	
	To Investments A/c		175	
	To Capital Reserve A/c (Bal. fig.)		4,375	
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			

Capital Reduction Account

To Liability for taxation A/c	175	By Equity share capital	21,000	{2 M}
To P & L A/c	2,100	By 8% Cumulative preferences Share capital	7,000	
To Fixed Assets	8,750	By 6% Debentures	2,800	
To Current assets	18,725	By Sundry creditors	3,500	
To Investment	175			
To Capital Reserve (Bal. fig.)	**4,375**			
	34,300		34,300	

Answer:

(b) (i) **Statement showing rebate on bills discounted**

Amount	Due Date	Days after 31.3.2023		Rate of discount	Discount Amount	
36,000	7.6.2023	(30+31+7)	68	12%	804.822	
34,200	14.6.2023	(30+31+14)	75	12%	843.288	
14,000	19.7.2023	(30+31+30+19)	110	10%	421.918	
14,000	10.8.2023	(30+31+30+31+10)	132	15%	759.452	
12,500	5.9.2023	(30+31+30+31+31+5)	158	13%	703.425	
11,000	7.10.2023	(30+31+30+31+31+30+7)	190	14%	801.644	
1,21,700					**4,334.549**	{1 M}

In the books of Bank
Journal Entries

(i)	Rebate on bills discounted Account Dr.	65,500		{1 M}
	To Discount on bills Account		65,500	
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			

(ii)	Discount on bills Account Dr.	4,334.549		{1 M}
	To Rebate on bills discounted Account		4,334.549	
	[Being provision made on 31st March, 2023]			
(iii)	Discount on bills Account Dr.	1,86,165.451		{1 M}
	To Profit and loss Account		1,86,165.451	
	[Being transfer of discount on bills, of the year, to profit and loss account]			

(ii) **Computation of amount credited to Profit and Loss A/c will be as follows:**
Rs. (1,25,000 + 65,500 – 4,334.549) = **Rs. 1,86,165.451** }{1 M}

OR

Note: Amount of discount may be rounded off for different bills. In that case, the answer will be given as follows:

(i) **Statement showing rebate on bills discounted**

Amount	Due Date	Days after 31.3.2023		Rate of discount	Discount Amount
36,000	7.6.2023	(30+31+7)	68	12%	805
34,200	14.6.2023	(30+31+14)	75	12%	843
14,000	19.7.2023	(30+31+30+19)	110	10%	422
14,000	10.8.2023	(30+ 31+ 30+31+ 10)	132	15%	759
12,500	5.9.2023	(30+ 31+ 30+31+31+ 5)	158	13%	703
11,000	7.10.2023	(30+31+30+31+31+30+7)	190	14%	802
1,21,700					**4,334** }{1 M}

In the books of Bank Journal Entries

(i)	Rebate on bills discounted Account Dr.	65,500		{1 M}
	To Discount on bills Account		65,500	
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Discount on bills Account Dr.	4,334		{1 M}
	To Rebate on bills discounted Account		4,334	
	[Being provision made on 31st March, 2023]			
(iii)	Discount on bills Account Dr.	1,86,166		{1 M}
	To Profit and loss Account		1,86,166	
	[Being transfer of discount on bills, of the year, to profit and loss account]			

(ii) **Computation of amount credited to Profit and Loss A/c will be as follows:**
Rs. (1,25,000 + 65,500 – 4,334) = **Rs. 1,86,166** }{1 M}

Answer:

(c) Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari-passu change in favor of the workman to the extent of their portion. {1 M}

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized X Workman's Dues}}{\text{Workman's Dues + Secured Loan}} \quad \{1\ M\}$$

$$= \frac{8,00,00,000 \text{ X } 2,50,00,000}{2,50,00,000 + 10,00,00,000}$$

$$8,00,00,000 \text{ X } \frac{1}{5}$$

Workman's Share to Secured Assets = **Rs. 1,60,00,000** }{1 M}
Amount available to secured creditor is Rs. 800 Lakhs – Rs. 160 Lakhs = **Rs. 640 Lakhs** }{1 M}
Hence, no amount is available for payment of government dues and unsecured creditors. }{1 M}

Answer 6:
(a) Computation of contract cost

	Rs. Lakh	**Rs. Lakh**
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		7
Cost incurred (till date)		45
Add: further cost to be incurred		35
Total contract cost		**80**

}{1 M}

Percentage of completion = Cost incurred till date/Estimated total cost
= Rs. 45,00,000/Rs. 80,00,000
= 56.25% }{2 M}

Contract revenue and costs to be recognized
Contract revenue (Rs. 85,00,000 x 56.25%) = Rs. 47,81,250
Contract costs = **Rs. 45,00,000** }{2 M}

Answer:
(b) Computation of Basic earnings per share

	Earnings Rs.	**Shares**	**Earnings/ Share Rs.**
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Basic earnings per share (72,00,000/30,00,000)			**2.40**

}{2.5 M}

Computation of Diluted earnings per share

	Earnings	**Shares**	**Earnings/Share**
	Rs.		**Rs.**
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Number of shares under option		6,00,000	
Number of shares that would have been			
issued at fair value			
(6,00,000 x 20.00)/25.00		(4,80,000)	
Diluted earnings per share	72,00,000	31,20,000	**2.31**
			(rounded-off)

}{2.5 M}

Note: The earnings have not been increased as the total number of shares has been increased only by the number of shares (1,20,000) deemed for the purpose of the computation to have been issued for no consideration.
To the extent that partly paid shares are not entitled to participate in dividends during the reporting period they are considered the equivalent of options.

Answer

(c) (i) **Delivery is delayed at buyer's request and buyer takes title and accepts billing :** Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

(ii) **Instalment sales:** When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

(iii) **Trade discounts and volume rebates:** Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(iv) **Insurance agency commissions for rendering services:** Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(v) **Advertising commission:** Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

{5 Item x 1 M Each = 5 M}

Answer:

(d)

In the books of P Ltd.
Journal Entries

Date	Particulars	(Rs.)	(Rs.)	
31.3.20X1	Employees compensation expense account Dr.	80,000		**{1/4 M}**
	To Employee stock option outstanding account		80,000	
	(Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of Rs. 90 (170-80) each, amortized on straight line basis over $4^{1/2}$ years [(8,000 stock options x Rs. 90) / 4.5 years] x 0.5]) (W.N.1)			
	Profit and loss account Dr.	80,000		**{1/4 M}**
	To Employees compensation expenses account		80,000	
	(Being expenses transferred to profit and loss account at the year end)			
31.3.20X2	Employees compensation expense account Dr.	1,60,000		**{1/4 M}**
	To Employee stock option outstanding account		1,60,000	
	(Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(8,000 stock options x Rs. 90) / 4.5 years) x 1 year])			
	Profit and loss account Dr.	1,60,000		**{1/4 M}**
	To Employees compensation expense account		1,60,000	

	(Being expenses transferred to profit and loss account at year end)			
31.3.20X3	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/4 M}
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Employee stock option outstanding account Dr. (W.N.2)	1,20,000		
	To General Reserve account (W.N.2)		1,20,000	{1/2 M}
	(Being excess of employees compensation expenses transferred to general reserve account)			
	Profit and loss account Dr.	80,000		
	To Employees compensation expenses account		80,000	{1/4 M}
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X4	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/4 M}
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over $4^{1/2}$ years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Profit and loss account Dr.	80,000		
	To Employees compensation expenses account		80,000	{1/4 M}
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X5	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	{1/4 M}
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs.90 each, amortised on straight line basis over 41/2 years [(4,000 stock options x Rs. 90) / 4.5 years])			
	Profit and loss account Dr.	80,000		
	To Employees compensation expense account		80,000	{1/4 M}
	(Being expenses transferred to profit and loss account at year end)			
30.9.20X5	Bank A/c (3,000 × Rs. 80) Dr.	2,40,000		
	Employee stock option outstanding Dr.	2,70,000		
	To Equity share capital account (3,000 x Rs. 10)		30,000	{1/4 M}
	To Securities premium [(Rs. 170 – Rs. 10) x 3,000]		4,80,000	
	(Being 3,000 employee stock option			

	exercised at an exercise price of Rs. 80 each)		
	Employee stock option outstanding account Dr. (W.N.3)	90,000	
	To General reserve account (W.N.3)		90,000
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)		

{1/2 M}

Working Notes:

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

Answer:

(e) (i) The respective voting right of various shareholders will be

X	=	2/3X30/100	=	3/15	OR 20%
Y	=	2/3X30/100	=	3/15	OR 20%
Z	=	2/3X40/100	=	4/15	OR 26.67%
A	=	1/3X50/100	=	1/6	OR 16.67%
B	=	1/3X30/100	=	1/10	OR 10%
C	=	1/3X20/100	=	2/30	OR 6.67%

Hence their relative weights are 3**/15: 3/15: 4/15: 1/6: 1/10:2/30 or 6:6:8:5:3:2.** {2 M}

(ii) 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 (DVR) issued at any point of time as per Companies (Share Capital and Debentures) Rules.

	Rs.
Existing Equity Share Capital paid up	1,00,00,000.00
Proposed DVR	50,00,000.00
Post DVR Equity Share Capital paid up	1,50,00,000.00
% of shares with DVR to total paid up Equity Share Capital (including Equity Shares with DVR) (Rs. 50,00,000 / Rs. 150,00,000 X 100)	**33.33%**

{1 M}

In the given case 33.33% of shares with DVR to total post issue paid up Equity Capital (including Equity Shares with DVR) is not exceeding 74%. Hence, the company can issue such equity shares. {2 M}

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