(ALL BATCHES)

DATE: 10.08.2018 MAXIMUM MARKS: 100 TIMING: 3¼Hours

PAPER 5 :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 only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.
Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Answer 1:

(a) Computation of Basic Earnings per Share

		Year 2012-13 (Rs.)	Year 2013-14 (Rs.)	
(i)	EPS for the year 2012-13 as originally reported= Net profit for the year attributable to equity shareholder/weighted average number of equity sharesoutstanding during the year $\frac{\text{Rs. } 22,00,000}{10,00,000 \text{ shares}}$ shares	2.20		(½M)
(ii)	EPS for the year 2012-13 restated for the right issue $\frac{\text{Rs. } 22,00,000}{10,00,000 \text{ shares x } 1.04}$	2.12		(½M)
(iii)	EPS for the year 2013-14 (including effect of rightissue) $\frac{\text{Rs. } 30,00,000}{(10,00,000 \text{ x } 1.04 \text{ x } 4/12)+(12,00,000 \text{ x } 8/12)}$		2.62	(2M)

Working Notes:

1. Computation of theoretical ex-rights fair value per share =

$$\frac{\textit{Fair value of all outstanding shares immediately prior to exercise of rights} + \textit{total amount received from exercise}}{\textit{Number of shares outstanding prior to exercise} + \textit{number of shares issued in the exercise}}$$

$$\frac{(\text{Rs. } 32\times10,00,1000)+(\text{Rs. } 25\times2,00,000)}{10,00,000 + 2,00,000}$$

= Rs. 30.83 **(1M)**

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$= \frac{\text{Rs. 32}}{\text{Rs. 30.83}}$ =1.04 (approx.) **(1M)**

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. **(1M)**

Case (i)

The sale is complete but delivery has been postponed at buyer‟s request. M/s Paper Products Ltd. should recognize the entire sale of Rs. 60,000 for the year ended 31st March, 2015. **(½M)**

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,20,000 (80% of Rs. 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party. **(1M)**

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 1,20,000 as the time period for rejecting the goods had expired. **(1M)**

Case (iv)

Trade discounts given should be deducted in determining revenue. Thus Rs. 39,000 should be deducted from the amount of turnover of Rs. 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be Rs. 7,41,000. **(1M)**

Thus total revenue amounting Rs. 10,41,000 (60,000 + 1,20,000+ 1,20,000+7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd. **(½M)**

(c) (i) Determination of nature of lease

Fair value of asset Rs.7,00,000

Unguaranteed residual value Rs.70,000

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

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

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

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

(ii) ● Calculation of Unearned finance income
Annual lease payment = Rs.6,52,190 / 3.169
= Rs.2,05,803 (approx.) **(1M)**

● Gross investment in the lease
= Total minimum lease payments + unguaranteed residual value.
= (Rs.2,05,803 x 4) + Rs. 70000
= Rs.8,23,212 + Rs. 70,000 = Rs.8,93,212 **(1M)**

● Unearned finance income = Gross investment – Present value of minimum lease payment and unguaranteed residual value.
= Rs.8,93,212 – Rs.7,00,000
(Rs.6,52,190 + Rs.47,810)
= Rs.1,93,212 **(1M)**

(d) Reporting entity- A Ltd.
- B Ltd. (subsidiary) is a related party
- O Ltd.(subsidiary) is a related party **(1M)**

Reporting entity- B Ltd.
- A Ltd. (holding company) is a related party
- O Ltd. (subsidiary) is a related party **(1M)**

Reporting entity- O Ltd.
- A Ltd. (holding company) is a related party
- B Ltd. (holding company) is a related party
- Z Ltd. (investor/ investing party) is a related party **(2M)**

Reporting entity- Z Ltd.
- O Ltd. (associate) is a related party **(1M)**

Answer 2:

(a)

Liquidators' Final Statement of Account

Receipts	Rs.	Payments	Rs.
Cash	4,13,000	Return to contributors:	
Realisation from:		Arrears of Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs.5 per		Calls in advance	5,000
equity share of Rs.50		Equity shareholders of	
each (Rs.5 × 1,000) See		Rs.100 each (3,000 ×Rs.30)	90,000
WN below	5,000		
	4,28,000		4,28,000

(7 Itmes × ½ Mark)

Working Note:

(i)

	Rs.
Cash account balance	4,13,000
Less: Payment for dividend 33,000	
Preference shareholders 3,00,000	
Calls in advance 5,000	(3,38,000)
	75,000
Add: Calls in arrears	10,000

(2M)

	85,000
Add: Amount to be received from equity shareholders of Rs.50 each (1,000 ×20)	20,000
Amount disposable	1,05,000

Number of equivalent equity shares:
3,000 shares of Rs.100 each = 6,000 shares of Rs.50 each
1,000 shares of Rs.50 each = 1,000 shares of Rs.50 each
= 7,000 shares of Rs.50 each **(1M)**

Final payment to equity shareholders = $\frac{\textit{Amount left for distribution}}{\textit{Total number of equivalent equity shares}}$
= Rs.1,05,000 / 7,000 shares = Rs.15 per share to equity shareholders of Rs.50 each. **(1M)**

Therefore for equity shareholders of Rs.100 each $\left(15 \times \frac{100}{50}\right)$ **(1M)**
= Rs.30 per share to equity shareholders of Rs.100 each.
Calls in advance must be paid first, so as to pay the shareholders on pro rata basis. **(½M)**
Equityshareholders of Rs.50 each have to pay Rs.20 and receive Rs.15 each. As a result, they arerequired to pay net Rs.5 per share. **(1M)**

(b) Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	*(Shares)*
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

(½M)

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	Rs.
Paid up capital (Rs.)	12,50,000
Free reserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (Rs.)	31,25,000
25% of Shareholders fund (Rs.)	7,81,250
Buy back price per share	Rs, 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy back	25,000

(½M)

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

Particulars		Rs.
(a)	Loan funds (Rs.) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	22,62,500
(c)	Present equity/shareholders fund (Rs.)	31,25,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ Rs.20 per share	28,750 shares
(g)	Actual Buy Back Proposed	25,000 Shares

(1M)

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

(1M)

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.
However, company wants to buy-back only 25,000 equity shares @ Rs.20.
Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of Rs.10 each @ Rs.20 per share)	5,00,000	5,00,000	**(½M)**
(b)	Equity share capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000	**(½M)**
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000	**(½M)**

Balance Sheet of M/s. Competent Ltd.
as on 31st March, 20X1

		Particulars	Note No.	Amount (Rs.)
		EQUITY AND LIABILITIES		
1		**Shareholders' funds**		
	(a)	Share capital	1	**½M**10,00,000
		Reserves and Surplus	2	**½M**16,25,000
2		**Non-current liabilities**		
	(a)	Long-term borrowings	3	**½M**28,75,000
3		**Current liabilities**		**½M**16,50,000
		Total		71,50,000
		ASSETS		
1		**Non-current assets**		
	(a)	Fixed assets		**½M**46,50,000
2		**Current assets (30,00,000-5,00,000)**		**½M**25,00,000
		Total		71,50,000

Notes to accounts

		Rs.	Rs.	
1	**Share Capital**			
	Equity share capital			
	1,00,000 Equity shares of Rs. 10 each		10,00,000	**(½M)**
2.	**Reserves and Surplus**			
	Profit and Loss A/c	1,25,000		
	Revenue reserves 15,00,000			
	Less: Transfer to CRR (2,50,000)	12,50,000		
	Securities premium 2,50,000			
	Less: Utilisation for share buy-back (2,50,000)			
	Capital Redemption Reserves	2,50,000	16,25,000	**(½M)**
	Long-term borrowings			
	Secured			
	12% Debentures	18,75,000		
	Unsecured loans	10,00,000	28,75,000	**(½M)**

Working Note

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(31{,}25{,}000 - x) - 22{,}62{,}500 = y \qquad (1)$$

$$\left(\frac{Y}{20}\times 10\right) = x \text{ Or } \quad 2x = y \qquad (2)$$

by solving the above equation, we get

x = Rs. 2,87,500

y = Rs. 5,75,000

(1M)

Answer 3:

(a)

Journal of A & Co. Ltd.

		Dr. (Rs.)	Cr. (Rs.)	
20X1 Dec.31	Equity Share Capital A/c (Rs. 10) Dr. To Capital Reduction A/c To Equity Share Capital A/c (Rs. 2) (Reduction of equity shares of Rs. 10 each to shares of Rs. 2 each as per Reconstruction Scheme dated...)	7,50,000	 6,00,000 1,50,000	**(1M)**
	6% Cum. Preference Share Capital A/c Dr. (Rs. 100) To Capital Reduction A/c To Pref. Share Capital A/c (Rs.75) (Reduction of preference shares of Rs. 100 each to shares of Rs.75 each as per reconstruction scheme)	4,00,000	 1,00,000 3,00,000	**(1M)**
20X1 Dec.31	Freehold Property A/c Dr. To Capital Reduction A/c (Appreciation in the value of property: | Book Value | Revalued	82,500	 82,500	**(1M)**

	Figure Rs. 1,00,000 Rs. 1,20,000 Rs. 3,25,000 Rs. 3,87,500 Total Rs. 4,25,000 Rs. 5,07,500 Profit on revaluation Rs. 82,500)			
"	6% Debentures A/c Dr. To Freehold Property A/c (Claims of debenture-holders, in part, in respect of principal discharged by transfer of freehold property vide scheme of reconstruction)	1,20,000	1,20,000	**(½M)**
"	Accrued Interest A/c Dr. To Bank A/c (Debenture interest paid)	22,500	22,500	**(½M)**
"	Bank A/c Dr. To 8% Debentures A/c (8% Debentures issued for cash)	1,30,000	1,30,000	**(½M)**
"	Bank A/c Dr. To Trade Investment A/c To Capital Reduction A/c (Sale of Trade Investment for Rs. 1,40,000 cost being Rs. 55,000; profit credited to CapitalReduction Account)	1,40,000	55,000 85,000	**(½M)**
"	Director's Loan A/c Dr. To Equity Share Capital A/c To Bank A/c To Capital Reduction A/c (Directors'loan discharged by issue of equityshares of Rs. 90,000, cash payments of5,000 and surrender of Rs. 5,000, vide Scheme of Reconstruction)	1,00,000	90,000 5,000 5,000	**(1M)**
Dec.31	Capital Reduction Account Dr. To Equity Share Capital Account (Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amountdue, Rs. 96,000)	24,000	24,000	**(1M)**
"	Capital Reduction Account Dr. To Patents To Goodwill To Inventory To Provision for Doubtful Debts To Bank To Profit & Loss Account (Writing off patents, goodwill, profit andloss account and reducing the value ofstock, making the required provision for doubtful debts and payment for cancellation of capital commitments.	8,48,500	37,500 1,30,000 65,000 68,500 12,500 5,35,000	**(1M)**

Balance Sheet of A & Co. Ltd. (And Reduced) as on 1st January, 20X2

		Particulars	Notes	Rs.

		Equity and Liabilities			
1		**Shareholders' funds**			
	a	Share capital	1	5,64,000	**(½M)**
2		**Non-current liabilities**			
	a	Long-term borrowings	2	3,85,000	**(½M)**
3		**Current liabilities**			
	a	Trade Payables		3,00,000	**(½M)**
	b	Short term provision	3	68,500	**(½M)**
		Total		13,17,500	
		Assets			
1		**Non-current assets**			
	a	Fixed assets			
		Tangible assets	4	4,37,500	**(½M)**
		Intangible assets	5		
2		**Current assets**			
		Inventories		3,60,000	**(½M)**
		Trade receivables	6	4,85,000	**(½M)**
		Cash and cash equivalents		35,000	**(½M)**
		Total		**13,17,500**	

Notes to accounts

1	Share Capital			
	Equity share capital			
	1,32,000 Equity shares of Rs. 2 each (of the above 45,000 shares have been issued for consideration other than cash)		2,64,000	
	Preference share capital			
	4,000 6% Preference shares of Rs. 75 each		3,00,000	
	Total		**5,64,000**	**(½M)**
2	**Long-term borrowings**			
	Secured			
	6% Debentures		2,55,000	
	8% Debentures		1,30,000	
	Total		**3,85,000**	**(½M)**
3	**Short term provision**			
	Provision for doubtful debt		68,500	**(½M)**
4	**Tangible assets**			
	Fixed assets			
	Tangible assets			
	Freehold property	4,25,000		
	Add: Appreciation under scheme of Reconstruction	82,500		
	Less: Disposed of	(1,20,000)	3,87,500	
	Plant		50,000	
	Patents	37,500		
	Less: Written off under scheme of reconstruction	(37,500)	-	
	Net carrying value		4,37,500	**(½M)**
5.	**Intangible assets**			
	Goodwill	1,30,000		

	Less: Written off under scheme of Reconstruction	(1,30,000)		
	Net carrying value	-	Nil	**(½M)**
6.	**Trade receivables**			
	Trade receivables		4,85,000	**(½M)**

(b)(i) Calculation of Purchase Consideration
Purchase Consideration [5,00,000 share ×11/10] × Rs. 10
= 5,50,000 × Rs. 10
= 55,00,000 **(1M)**

(ii) Reserve to be incorporated in Books of G.Ltd.

G. Rese. (10,00,000 – 5,00,000)	5,00,000
P & L	5,00,000
	10,00,000

Note: Difference to be Adjusted from G.R.

Purchase Consideration	55,00,000
Paid up capital of H. Ltd.	(50,00,000) **(1M)**
	5,00,000

(iii) Journal Entries

Date	Particulars	Dr.	Cr.	
1	Business Purchase a/c Dr. To Liquidator of H. Ltd. (Being Purchase Consideration due)	55,00,000	55,00,000	**(1M)**
2.	Net Asset a/c Dr. To Business Purchase To General Reserve To Profit & Loss (Being Recording of Assets & Liabilities taken over)	65,00,000	55,00,000 5,00,000 5,00,000	**(1M)**
3.	Liquidator of H. Ltd. a/c Dr. To Equity Share Capital (Being p/c Discharged)	55,00,000	55,00,000	**(1M)**

Answer 4:

(a)

Form B-RA (Prescribed by IRDA)
Sunlife General Insurance Company
Revenue Account for the year ended 31st March, 2013

Particulars	Schedule	Amount (Rs.)
Premium earned (net)	1	**1M**66,80,000
Profit / Loss on sale / redemption of investments		
Others (to be specified)		
Interest, dividend and rent		
Total (A)		66,80,000
Claims incurred (Net)	2	**1M**45,26,000
Commission	3	**1M**1,47,000
Operating expenses related to insurance business	4	**1M**1,50,000
Total (B)		48,23,000
Operating profit from insurance business (A-B)		**1M**18,57,000

Schedules forming part of revenue account

Schedule 1 : Premium Earned (Net)

Particulars	Rs.
Premium from direct business	65,75,000
Add: Premium on reinsurance accepted	9,50,000
Less: Premium on reinsurance ceded	(4,75,000)
Net premium	70,50,000
Adjustment for change in reserve for unexpired risks (W.N.2)	(3,70,000)
Total premium earned (net)	66,80,000

(1M)

Schedule 2 : Claims Incurred (Net)

Particulars	Rs.
Claims paid on direct business (W.N.1)	43,30,000
Add: Re-insurance accepted (W.N.1)	4,73,000
Less: Re-insurance ceded (W.N.1)	(3,70,000)
Net claims paid	44,33,000
Add: Claims outstanding at the end of the year	7,18,000
Less: Claims outstanding at the beginning of the year	(6,25,000)
Total claims incurred	45,26,000

(1M)

Schedule 3 : Commission

Particulars	Rs.
Commission paid on direct business	1,50,000
Add: Commission on reinsurance accepted	11,000
Less: Commission on reinsurance ceded	(14,000)
	1,47,000

(1M)

Schedule 4 : Operating Expenses related to Insurance Business

Particulars	Rs.
Expenses of management (2,30,000 – 35,000 – 45,000)	1,50,000
	1,50,000

(1M)

Working Notes:

1. Claims incurred

Particulars	Direct business (Rs.)	Re-insurance accepted (Rs.)	Re-insurance ceded (Rs.)
Paid/received	42,50,000	5,00,000	3,25,000
Add: Outstanding at the end of the year		60,000	1,10,000
Expenses in connection with settlement of claim (35,000 + 45,000)	80,000		
Less: Outstanding at the beginning ofthe year		(87,000)	(65,000)
	43,30,000	4,73,000	3,70,000

(½M)

Note: Commission & Claims on reinsurance ceded represent income as the business ispassed on to the reinsurer.

2. Change in reserve for unexpired risk

Particulars	Rs.
Opening reserve as on 31st March, 2012	24,50,000
Less: Closing reserve as on 31st March, 2013 (Rs.70,50,000 x 40%)	(28,20,000)
Additional provision required	(3,70,000)

(½M)

(b) Provision required to be made as on 31.03.20X1

Outstanding balance	Rs. 4.00 lakhs

Less: Value of security held (Secured Portion)	(Rs. 1.50 lakhs)	
Unrealised balance	Rs. 2.50 lakhs**(1M)**	
Less: ECGC Cover (50% of unrealizable balance)	(Rs. 1.25 lakhs)	
Net unsecured balance	Rs.1.25 lakhs**(1M)**	
Provision for unsecured portion of advance	Rs. 1.25 lakhs (@100% of unsecured portion)	**(1M)**
Provision for secured portion of advance	Rs. 1.50 lakhs (@100% of secured portion as advance has remained doubtful for over 3 years)	**(1M)**
Total provision to be made	Rs. 2.75 lakhs	**(1M)**

(c) Investment in Debentures A/c

		(Rs.) Lakh			*(Rs.) Lakh*
June 1, 2016	To Bank	10.70	June 1, 2016	By Interest Recoverable (Note 1)	0.20
Nov 1, 2016	To Bank	5.45	Nov 1, 2016	By Interest Recoverable(Note 2)	0.05
	To Interest Recoverable (Note 3)	0.30	Feb 28, 2017	By Bank	6.78
Feb. 28, 2017	To Profit on disposal (Note 4)	0.12	Mar. 31, 2017	By Balance c/d	9.54
		16.57			16.57

(8 Item × ½ Mark)

Working Notes:

Note 1:10,000 x 100 x 12/100 x 2/12 = Rs. 0.20 Lakhs **(¼M)**

Note 2:5,000 x 100 x 12/100 x 1/12=Rs. 0.05 Lakhs **(¼M)**

Note 3:6,000 x 100 x 12/100 x 5/12=Rs. 0.30 Lakhs **(¼M)**

Note 4: Cost of investments (per unit) = [(10,70,000-20,000)+(5,45,000 –5,000)]/15,000units
= [10,50,000+ 5,40,000]/15,000 = Rs. 106

Cost of investments sold = Rs. 106 x 6,000 = Rs. 6,36,000

Sale proceeds= Rs. 6,78,000 - Rs. 30,000(interest)
= Rs. 6,48,000

Profit= Rs. 6,48,000 - Rs. 6,36,000 = Rs. 12,000 **(¼M)**

Answer 5:

(a) Consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd.
As on 31st March, 2017

Particulars		Note No.	(Rs.)
I	**Equity and Liabilities**		
	(1) Shareholder's Funds		
	(a) Share capital		**¾M**10,00,000
	(b) Reserves and surplus (W.N.5.)		**¾M**5,09,000
	(2) Minority interest (W.N 3.)		**¾M**1,46,000
	(3) Non-current liabilities		

	(a) Long term borrowings	1	¾**M**2,00,000
	(4) Current Liabilities		
	(a) Trade payables	2	¾**M**4,60,000
	(b) Other current liabilities		¾**M**2,40,000
	(Rs. 2,00,000 + Rs. 40,000)		
	Total		25,55,000
II	**Assets**		
	(1) Non-current assets		
	(a) Fixed assets	3	¾**M**10,55,000
	(i) Tangible assets	4	¾**M**3,40,000
	(ii) Intangible assets		
	(2) Current assets		
	(a) Inventories	5	¾**M**6,05,000
	(b) Trade receivables	6	
	(c) Cash & cash equivalents	7	¾**M**3,55,000
			¾**M**2,00,000
			25,55,000

Notes to Accounts

1	**Long Term Borrowings**		
	Secured loans		
	13% Debentures (Rs. 100 each)		¾**M**2,00,000
2	**Trade Payables**		
	A Ltd.	3,80,000	
	B Ltd.(W.N 1)	1,40,000	
		5,20,000	
	Less : Mutual indebtedness	(60,000)	¾**M**4,60,000
3	**Tangible Assets**		
	A Ltd.	6,50,000	
	B Ltd.	4,05,000	¾**M**10,55,000
4	**Intangible assets**		
	Goodwill (W.N 2)		¾**M**3,40,000
5	**Inventories**		
	A Ltd.	2,00,000	
	B Ltd.[WN 1]	4,20,000	
		6,20,000	
	Less : Unrealised profit [90,000 X 20/120]	(15,000)	¾**M**6,05,000
	Trade Receivables		
6	A Ltd.	1,50,000	
	B Ltd.	2,65,000	
		4,15,000	
	Less : Mutual indebtedness	(60,000)	¾**M**3,55,000
7	**Cash & Cash equivalents**		
	A Ltd.	80,000	
	B Ltd.[W.N 1]	1,20,000	¾**M**2,00,000

Working Notes:

1. Adjustments to be made in the balance sheet items of B Ltd.:

Assets side	(Rs.)	
Inventories:		
As on 31st December, 2016	3,50,000	
Add : Unsold Inventory out of goods purchased from A Ltd.	90,000	
	4,40,000	(½M)
Less: Loss of inventory by fire	(20,000)	
	4,20,000	
Cash & Bank balance:		
As on 31st December, 2016	1,05,000	
Add: Insurance claim received [20,000 × 75 %]	15,000	(½M)
	1,20,000	
Liabilities side:		
Trade payables:		
As on 31st December, 2016	80,000	
Add: Owings to A Ltd. on 31st March, 2017	60,000	(½M)
	1,40,000	
Reserves and Surplus:		
As on 31st December, 2016	2,05,000	
Less: Abnormal Loss on goods destroyed [20,000 – 15,000]	(5,000)	
	2,00,000	(½M)
Add: Profit from sale of goods purchased from A Ltd.	30,000	
	2,30,000	

2. Goodwill / capital reserve on consolidation:

	(Rs.)	(Rs.)	
Amount paid for 40,000 Shares		8,00,000	
Less: Nominal value of proportionate share capital	4,00,000		
Share of pre-acquisition profits (80% of Rs. 75,000)	60,000	(4,60,000)	(1M)
Goodwill		3,40,000	

3. Minority Interest: 10,000 / 50,000 shares = 20%

	(Rs.)	
Paid up value of 10,000 shares	1,00,000	
Add: 20% of Reserves & Surplus of B Ltd. (20% ofRs.2,30,000)	46,000	(1½M)
	1,46,000	

4. Profit /Loss on Debentures acquired

	(Rs.)	
Amount paid for 1,000 Debentures	1,50,000	
Less: Nominal value of proportionate 13% debentures	(1,00,000)	(1M)
Loss charged to Profit and Loss Account	50,000	

5. Reserves and Surplus of A Ltd.:

	(Rs.)	
Balance as on 31st March, 2017	4,50,000	
Add: Share of revenue reserves of B Ltd. ([80% of Rs. 1,55,000 (i.e. 2,30,000 – 75,000)]	1,24,000	
	5,74,000	(1M)
Less: Unrealised profit on inventory $\frac{1}{6}$ 90,000	(15,000)	
Loss on elimination of debentures acquired	(50,000)	
	5,09,000	

Answer 6:

(a) With respect to a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier.

a. The enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation or **(2½M)**

b. The enterprise's board of directors or similar governing body has both
   (i) approved a detailed, formal plan for the discontinuance and
   (ii) made an announcement of the plan. **(2½M)**

(b) Past profits of PPX Ltd. showed an increasing trend excepting in year 2015. But the effects of changes in accounting policies should be eliminated to ascertain the true nature of trend. Since the company has adopted LIFO method of Inventory valuation and W.D.V method of depreciation, profits may be recomputed applying these policies consistently in all the past years. Re-computation of profits following uniform accounting policies are shown below:

Year	*Book Profits*	*Effect of LIFO on Valuation of Inventory.*	*Effect of W.D. V Depreciation*	*Profits after elimination of the effect of change in Accounting policies*
2011	21,70	– 4,60	– 4,90	**(½M)** 12,20
2012	22,50	+ 3,50	– 3,95	**(½M)** 22,05
2013	23,70	+ 1,50	– 4,25	**(½M)** 20,95
2014	24,50	–20	– 2,90	**(½M)** 21,40
2015	21,10	—	—	**(½M)** 21,10

After elimination of the effect of change in accounting policies, increasing trend disappeared. Rather profits were oscillating during the last four years excepting 2011. So a simple average may be taken of the last 4 years profits to arrive at the future maintainable profits: $\frac{22{,}05+20{,}95+21{,}40+21{,}10}{4}$ = 21,37.50 **(½M)**

Working Note:

Effect of LIFO Valuation:

2011	Increase in Inventory as per FIFO valuation	6,00
	Less: Increase in Inventory per LIFO valuation	(1,40)
	Reduction in profit	4,60 **(½M)**
2012	Increase in Inventory as per FIFO valuation	3,20
	Less: Increase in Inventory as per LIFO valuation	(6,70)
	Increase in profit	3,50 **(½M)**
2013	Decrease in Inventory as per FIFO valuation	10,30
	Less: Decrease in Inventory as per LIFO valuation	(8,80)
	Increase in profit	1,50 **(½M)**
2014	Opening Inventory as per FIFO valuation	38,90
	Less: Opening Inventory as per LIFO valuation	(39,10)
	Reduction in profit	20 **(½M)**

(c) Calculationof liability of each underwriter if the benefit of firm underwriting is not given to individual underwriters

(Number of shares)						
	P	Q	R	S	Total	
Gross Liability	30,000	30,000	20,000	20,000	1,00,000	
Less:Markedapplications (excluding firmunderwriting)	(19,000)	(10,000)	(21,000)	(8,000)	(58,000)	
Balance	11,000	20,000	(1,000)	12,000	42,000	**(½M)**
Less: Surplus of R allocatedto P, Q and S in the ratio of3:3:2	(375)	(375)	1,000	(250)	-	
Balance	10,625	19,625	-	11,750	42,000	**(½M)**
Less: Unmarked applicationsincluding firm underwriting(refer working note)	(5,700)	(5,700)	(3,800)	(3,800)	(19,000)	
Net Liability	4,925	13,925	(3,800)	7,950	23,000	**(½M)**
Less: Surplus of R allocatedto P, Q and S in the ratio of3:3:2	(1,425)	(1,425)	3,800	(950)	-	
	3,500	12,500	-	7,000	23,000	**(½M)**
Add: Firm underwriting	3,000	2,000	1,000	1,000	7,000	
Total Liability	6,500	14,500	1,000	8,000	30,000	**(½M)**

Calculation of underwriting commission:

As per law in force, underwriting commission is payable @ 5% of the issue price of shares. **(½M)**

Underwriting commission payable to P and Q=5% of (Rs. 15 × 30,000 shares) = Rs. 22,500. **(½M)**

Underwriting commission payable to R and S =5% of (Rs. 15 x 20,000 shares) = Rs. 15,000. **(½M)**

Working Note:

Application received from public	70,000 shares	**(1M)**
Add : Shares underwritten firm	7,000 shares	
Total application	77,000 shares	
Less: Marked applications	(58,000 shares)	
Unmarked application including firm underwriting	19,000 shares	

(d)In the books of ABC Ltd.

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)	
31.3.20X1	Employees compensation expense account Dr. To Employee stock option outstanding account (Being compensation expenses recognized inrespect of the employee stock option i.e.1,000 options granted to employees at adiscount of Rs. 120 each, amortized on straightline basis over 2½ years) (1,000 stock options ×Rs. 120 / 2.5 years)	48,000	 48,000	**(½M)**
	Profit and loss accountDr. To Employees compensation expenses	48,000	 48,000	**(½M)**

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

Working Notes:

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

No. of options actually vested (700 x 120)	Rs. 84,000	(1M)
Less: Expenses recognizedRs.(48,000 + 48,000)	(Rs. 96,000)	
Excess expense transferred to general reserve	Rs. 12,000	

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

No. of options actually vested (600 x 120)	Rs. 72,000

Less: Expenses recognized	(Rs. 84,000)
Excess expense transferred to general reserve	Rs. 12,000

(1M)

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

(e) According to generally accepted accounting principles, the provision for dividend is recognised in the financial statements of the year to which the dividend relates. In view of this, CDT on dividend, being directly linked to the amount of the dividend concerned, should also be reflected in the accounts of the same financial year even through the actual tax liability the respect thereof may arise in a different year. **(5M)**

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