

(ALL BATCHES)		
DATE: 01.10.2018	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)

(a)	Amount of foreseeable loss	(Rs. in lakhs)
	Total cost of construction (500 + 105 + 495)	1,100
	Less: Total contract price	(1,000)
	Total foreseeable loss to be recognised as expense	<u>100</u>

1M

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

(b)	Contract work-in-progress i.e. cost incurred to date are Rs. 605lakhs	(Rs. in lakhs)
	Work certified	500
	Work not certified	<u>105</u>
		<u>605</u>

1M

This is 55% (605/1,100×100) of total costs of construction.

(c) Proportion of total contract value recognised as revenue: } **1M**
 55% of Rs. 1,000 lakhs = Rs. 550lakhs

(d) Amount due from/to customers = (Contract costs + Recognised profits - Recognised Losses) - (Progress payments received + Progress payments to be received) } **1M**
 = (605 + Nil - 100) - (400 + 140) Rs. in lakhs
 = [505 - 540] Rs. in lakhs
 Amount due to customers = Rs. 35lakhs
 The amount of Rs. 35 lakhs will be shown in the balance sheet as liability.

(e) The relevant disclosures under AS 7 are given below:

	Rs. in lakhs
Contract revenue	550
Contract expenses	605
Recognised profits less recognised losses	(100)
Progress billings Rs. (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

1M

(b) •As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use.

2M

•Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26.

1M

•Accordingly, Base Limited would be required to restate the carrying amount of intangible asset as on 1.4.2011 at Rs. 112 lakhs less Rs. 33.6 lakhs $\left(\frac{112 \text{ lakhs}}{10 \text{ year}} \times 3 \text{ years}\right) = \text{Rs. } 78.4 \text{ lakhs}$. The difference of Rs. 6.6 lakhs i.e. (Rs. 85 lakhs - Rs. 78.4 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 78.4 lakhs would be amortized over remaining 7 year by Rs. 11.2 lakhs per year.

2M

(c) According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

- (i) There is a present obligation arising out of past events but not recognised as provision.
- (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (iii) The possibility of an outflow of resources embodying economic benefits is not remote.
- (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognised as provision.

1½M

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made.

1½M

For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

Expected loss in next ten cases = 30% of Rs. 1,20,000 + 10% of Rs. 2,00,000
 = Rs. 36,000 + Rs. 20,000
 = Rs. 56,000 } **¾M**

Expected loss in remaining five cases = 30% of Rs. 1,00,000 + 20% of Rs. 2,10,000
 = Rs. 30,000 + Rs. 42,000
 = Rs. 72,000 } **¾M**

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of Rs. 9,20,000 (Rs. 56,000 × 10 + Rs. 72,000 × 5) as contingent liability. } **½M**

(d) Amalgamation in the nature of merger is an amalgamation, as per para 3(e) of AS-14, which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company. } **1M**

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation. } **1M**

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares. } **1M**

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company. } **1M**

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies. For example, if transferor company is following straight line method of depreciation, the book value of the assets of the transferor company will be revised by applying the written down method of depreciation. } **1M**

Answer: 2

(a)

Date	Particulars	Rs.	Rs.
31.3.20X2	Employees compensation expense A/c Dr. To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of Rs. 30 each, amortised on straight line basis over vesting years (Refer W.N.))	14,25,000	14,25,000
	Profit and Loss A/c Dr. To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	14,25,000	14,25,000

} **¾M**

} **¾M**

31.3.20X3	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	3,95,000	3,95,000	} ¾M
	Profit and Loss A/c To Employees compensation expensesA/c (Being expenses transferred to profit and Loss A/c)	Dr.	3,95,000	3,95,000	
31.3.20X4	Employees compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	8,05,000	8,05,000	} ¾M
	Profit and Loss A/c To Employees compensation expensesA/c (Being expenses transferred to profit and Loss A/c)		8,05,000	8,05,000	
20X4-X5	Bank A/c (85,000 × Rs. 20)	Dr.	17,00,000		} ¾M
	ESOS outstanding A/c [(26,25,000/87,500) × 85,000] To Equity share capital (85,000 × Rs. 10) To Securities premium A/c (85,000 × Rs. 40) (Being 85,000 options exercised at an exercise price of Rs. 50 each)	Dr.	25,50,000	8,50,000 34,00,000	
31.3.20X5	ESOS outstanding A/c To General Reserve A/c (Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)	Dr.	75,000	75,000	} ¾M

Working Note:

Statement showing compensation expense to be recognized at the end of:

Particulars	Year 1 (31.3.20X2)	Year 2 (31.3.20X3)	Year 3 (31.3.20X4)	
Number of options expected to vest	95,000 options	91,000 options	87,500 options	
Total compensation expense accrued(50-20)	<u>Rs.28,50,000</u>	<u>Rs.27,30,000</u>	<u>Rs.26,25,000</u>	} 1M
Compensation expense of the year	28,50,000 x1/2 = Rs.14,25,000	27,30,000 x2/3 = Rs.18,20,000	Rs.26,25,000	
Compensation expense recognized previously	Nil	<u>Rs. 14,25,000</u>	<u>Rs.18,20,000</u>	} 1M
Compensation expenses to be recognized for the year	<u>Rs. 14,25,000</u>	<u>Rs.3,95,000</u>	<u>Rs.8,05,000</u>	

(b)

(i) **Statement showing underwriters' liability for shares other than shares underwritten firm**

	X	Y	Z	Total	
Gross liability (Issued shares – purchased by promoters, directors etc) (9,00,000 shares in the ratio of 65 : 25 : 10)	5,85,000	2,25,000	90,000	9,00,000	1/2M
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)	1/2M
	4,65,500	1,67,500	79,500	7,12,500	1/2M
Less : Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)	1/2M
	10,500	(7,500)	9,500	12,500	1/2M
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	=	1/2M
Additional shares to be purchased by X & Z	4,000	-	8,500	12,500	1/2M

	Rs.	Rs.	Rs.	
Additional Liability for additional shares @ Rs.11	44,000	-	93,500	1/2M
Underwriting commission payable on Gross Liability				
(Shares underwritten as Gross liability × Rs.11 × 2%)	(1,28,700)	(49,500)	(19,800)	1/2M
Net Amount payable	(84,700)	(49,500)	-	1/2M
Net Amount receivable	-	-	73,700	1/2M

(ii) **Journal Entries**

	Dr.	Cr.	
	Rs.	Rs.	
Bank A/c	Dr.	11,00,000	
To Equity Shares Application A/c			11,00,000
(Being application money received on 1 lakh equity shares purchased by directors etc. @ Rs.11 per share)			

Bank A/c To Equity Share Application A/c (Application money received on 8,87,500 equity shares @ Rs.11 per share from general public and underwriters for shares underwritten firm)	Dr.	97,62,500	97,62,500	} 3/4M
Equity Share Application A/c X' s A/c Z' s A/c To Equity Share Capital A/c To Securities Premium A/c (Allotment of 10 lakh equity shares of Rs.10 each at a premium of Rs.1 per share)	Dr. Dr. Dr.	1,08,62,500 44,000 93,500	1,00,00,000 10,00,000	
Underwriting commission A/c To X's A/c To Y's A/c To Z's A/c (Amount of underwriting commission payable to X, Y and Z @2% on the amount of shares underwritten)	Dr.	1,98,000	1,28,700 49,500 19,800	} 3/4M
Bank A/c To Z's A/c (Amount received from Z in final settlement)	Dr.	73,700	73,700	
X's A/c Y's A/c To Bank A/c (Amount paid to X and Y in final settlement)	Dr. Dr.	84,700 49,500	1,34,200	} 3/4M

Answer: 3

**In the Books of Vayu Ltd.
Realisation Account**

	Rs.		Rs.	} 6 items = 1/2M
To Sundry Assets	5,70,000	By Retirement Gratuity Fund	20,000	
To Preference Shareholders (Premium on Redemption)	10,000	By Trade payables	80,000	
To Equity Shareholders (Profit on Realisation)	<u>50,000</u>	By HariLtd. (Purchase Consideration)	5,30,000	
	<u>6,30,000</u>		<u>6,30,000</u>	

Equity Shareholders Account

		Rs.			Rs.
To	Equity Shares of Hari Ltd.	4,20,000	By	Share Capital	3,00,000
			By	General Reserve	70,000
			By	Realisation Account (Profit on Realisation)	50,000
		<u>4,20,000</u>			<u>4,20,000</u>

4 items = 1/2M

Preference Shareholders Account

		Rs.			Rs.
To	9% Preference Shares of Hari Ltd.	1,10,000	By	Preference Share Capital	1,00,000
			By	Realisation Account (Premium on Redemption of Preference Shares)	10,000
		<u>1,10,000</u>			<u>1,10,000</u>

3 items = 1/2M

Hari Ltd. Account

		Rs.			Rs.
To	Realisation Account	5,30,000	By	9% Preference Shares	1,10,000
			By	Equity Shares	4,20,000
		<u>5,30,000</u>			<u>5,30,000</u>

3 items = 1/2M

**In the Books of Hari Ltd.
Journal Entries**

		Dr.	Cr.
		Rs.	Rs.
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account (Being business of Vayu Ltd. taken over)			5,30,000
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

1/2M

1M

1/2M

**Balance Sheet of Hari Ltd. (after absorption) as
at 31st March, 20X1**

Particulars		Notes	Rs.	
Equity and Liabilities				
1	Shareholders' funds			
A	Share capital	1	16,10,000	}½M
B	Reserves and Surplus	2	90,000	}½M
2	Non-current liabilities			
A	Long-term provisions	3	70,000	}½M
3	Current liabilities			
A	Trade Payables		2,10,000	}½M
B	Short term provision		7,500	}½M
Total			19,87,500	
Assets				
1	Non-current assets			
A	Fixed assets			
	Tangible assets	4	11,10,000	}½M
	Intangible assets	5	1,00,000	}½M
2	Current assets			
A	Inventories		4,07,500	}½M
B	Trade receivables	6	3,00,000	}½M
C	Cash and cash equivalents		70,000	}½M
Total			19,87,500	

Notes to accounts

		Rs.	
1	Share Capital		
	Equity share capital		
	1,40,000 Equity Shares of Rs. 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than forcash)	14,00,000	
	Preference share capital		
	2,100 9% Preference Shares of Rs. 100 each (Out of above 1,100 Preference Shares were issued in consideration other than forcash)	2,10,000	
Total		16,10,000	}½M
2	Reserves and Surplus		
	Securities Premium	20,000	
	General Reserve	70,000	
Total		90,000	}½M
3	Long-term provisions		
	Gratuity fund	70,000	
Total		70,000	}½M
4	Short term Provisions		
	Provision for Doubtful Debts	7,500	
Total		7,500	}½M
5	Tangible assets		
	Buildings	4,50,000	
	Machinery	6,60,000	

Total		11,10,000	} ½M
6 Intangible assets			
Goodwill		1,00,000	
Total		1,00,000	} ½M
7 Trade receivables		3,00,000	

Working Notes:

Purchase Consideration:	Rs.	
Goodwill	50,000	} 2M
Building	1,50,000	
Machinery	1,60,000	
Inventory	1,57,500	
Trade receivables	92,500	
Cash at Bank	<u>20,000</u>	
	6,30,000	
Less: Liabilities:		
Retirement Gratuity	(20,000)	
Trade payables	<u>(80,000)</u>	
Net Assets/ Purchase Consideration	<u>5,30,000</u>	
To be satisfied as under:		
10% Preference Shareholders of Vayu Ltd.	1,00,000	
Add: 10% Premium	<u>10,000</u>	
1,100 9% Preference Shares of Hari Ltd.	1,10,000	
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000		
Equity Shares of Hari Ltd. at 5% Premium	<u>4,20,000</u>	
Total	<u>5,30,000</u>	

Answer: 4 (a)

KLM Bank Limited

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

		<i>Schedule</i>	<i>Yearended</i> <i>31.03.20X2</i>	
			Rs.	
I.	Income:			
	Interest earned	13	37,95,160	} ¾M
	Other income	14	<u>4,87,800</u>	} ¾M
	Total		<u>42,82,960</u>	
II.	Expenditure			
	Interest expended	15	22,95,360	} ¾M
	Operating expenses	16	5,70,340	} ¾M
	Provisions and contingencies (4,50,000+2,00,000+2,00,000)		<u>8,50,000</u>	} ¾M
	Total		<u>37,15,700</u>	
III.	Profits/Losses			

	Net profit for the year	5,67,260	} 3/4M
	Profit brought forward	<u>Nil</u>	} 3/4M
		<u>5,67,260</u>	
IV.	Appropriations		
	Transfer to statutory reserve (25% of 5,67,260)	1,41,815	} 3/4M
	Proposed dividend	50,000	} 3/4M
	Balance carried over to balance sheet	<u>3,75,445</u>	} 3/4M
		<u>5,67,260</u>	

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

Year ended 31.3.20X2 (Rs.)			
Schedule 13 – Interest Earned			
I.	Interest/discount on advances/bills (Refer W.N.)	<u>37,95,160</u>	} 1/2M
		<u>37,95,160</u>	
Schedule 14 – Other Income			
I.	Commission, exchange and brokerage	1,90,000	} 1/2M
II.	Profit on sale of investment	2,25,800	} 1/2M
III.	Rent received	<u>72,000</u>	} 1/2M
		<u>4,87,800</u>	
Schedule 15 – Interest Expended			
I.	Interests paid on deposits	<u>22,95,360</u>	} 1/2M
		<u>22,95,360</u>	
Schedule 16 – Operating Expenses			
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000	} 1/2M
II.	Rent, taxes paid	1,00,000	} 1/2M
III.	Depreciation on assets	40,000	} 1/2M
IV.	Director's fee, allowances and expenses	35,000	} 1/2M
V.	Auditor's fee	12,000	} 1/2M
VI.	Statutory (law) expenses	38,000	} 1/2M
VII.	Postage and telegrams	65,340	} 1/2M
VIII.	Preliminary expenses*	<u>30,000</u>	} 1/2M
		<u>5,70,340</u>	

Working Note:

	Rs.	} 4 items = 1/4M
Interest and discount received	38,00,160	
Add: Rebate on bills discounted on 31.3. 20X1	15,000	
Less: Rebate on bills discounted on 31.3. 20X2	<u>(20,000)</u>	
	<u>37,95,160</u>	

(b) Statement showing computation of 'Net Owned Fund'

	Rs. in 000	
Paid up Equity Capital	100	} 1/2M
Free Reserves	<u>500</u>	} 1/2M
	600	

Less: Deferred expenditure		(200)	} ½M
	A	<u>400</u>	} ½M
Investments			
In shares of subsidiaries and group companies		100	} ½M
In debentures of subsidiaries and group companies		<u>100</u>	} ½M
	B	<u>200</u>	} ½M
10% of A		40	} ½M
Excess of Investment over 10% of A(200-40)	C	160	} ½M
Net Owned Fund [(A) - (C)] (400-160)		<u>240</u>	} ½M

Answer: 5

Consolidated Profit & Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017

Particulars	Note No.	Rs. in Lacs
I. Revenue from operations	1	<u>5,865</u>
II. Total revenue		<u>5,865</u>
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	<u>535</u>
Total expenses		<u>1,769</u>
IV. Profit before Tax(II-III)		4,096
V. Tax Expenses	8	<u>1,400</u>
VI. Profit After Tax		<u>2,696</u>
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,696
Dividend paid		
H Ltd.	1,200	
S Ltd.	<u>150</u>	
	1,350	
Less: Share of H Ltd. in dividend of S Ltd.		
80% of Rs. 150 lacs	<u>(120)</u>	<u>(1,230)</u>
Profit to be transferred to consolidated balance sheet		<u>1,466</u>

Notes to Accounts

		Rs. in Lacs	Rs. in Lacs
1.	Revenue from Operations		
	Sales and other income		
	H Ltd.	5,000	

	S Ltd.	<u>1,000</u>	
		6,000	
	<i>Less: Inter-company Sales</i>	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	<u>(10)</u>	5,865
2.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	<u>200</u>	
		1,200	
	<i>Less: Unrealised profits Rs. 24 lacs × $\frac{20}{120}$</i>	(4)	<u>1,196</u>
			<u>7,061</u>
3.	Cost of Material purchased/consumed		
	H Ltd.	800	
	S Ltd.	<u>200</u>	
		1,000	
	<i>Less: Purchases by S Ltd. from H Ltd.</i>	(120)	880
	Direct Expenses (Production)		
	H Ltd.	200	
	S Ltd.	<u>100</u>	<u>300</u>
			<u>1,180</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	
	S Ltd.	<u>150</u>	<u>950</u>
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	
		300	
	<i>Less: Consultancy fees received by H Ltd. from S Ltd.</i>	(5)	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	<u>50</u>	
		250	
	<i>Less: Commission received from S Ltd. from H Ltd.</i>	(10)	<u>240</u>
			<u>535</u>
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>

7.	Depreciation and Amortisation Depreciation: H Ltd. S Ltd.	100 50	150
8.	Provision for tax H Ltd. S. Ltd.	1,200 200	1,400

Answer: 6

(a) Analysis :-

- (i) P Ltd. is a majority shareholder [60%] in Q Ltd. Thus, P Ltd has contral over Q Ltd.
- (ii) Q. Ltd holds 20% shares in R Ltd.
So Q Ltd has significant influence over R Ltd.
- (iii) P Ltd & Q Ltd. together hold (14% + 20%) = 34% of the shares in R Ltd.
So, P Ltd. has significant influence over R Ltd.

1½M

Signification influence

When an investing Party holds; directly or indirectly through intermediaries, 20% or more of the voting power, it is presumed that there is a significant influence, unless otherwise proved, P Ltd., Q Ltd. and R Ltd. are related parties.
Hence the disclosure requirement of AS-18 are applicable in the above case.

1½M

(b) Allocation of earnings

	Old unit holders (9 lakh units) (Rs. Lakh)	New unit holders (1 lakh units) (Rs. lakh)	Total earning (Rs. Lakh)
First half-year (Rs. 5.00 per unit)	45.0	Nil	45.0
Second half-year (Rs. 3.60 per unit)	32.4	3.6	36.0
	77.4	3.6	81.0
Add: Equalisation payment recovered			5.0
Total available for distribution			86.0

2M

Note: Equalisation payment = Rs. 45 lakh / 9 lakh = Rs. 5 per unit.

Distribution of earning per unit

	Old unit holders Rs.	New unit holders Rs.
Dividend distributed	8.60	8.60
Less: Equalisation payment		(5.00)
Net distributed income	8.60	3.60

1M

Journal Entries

Date		Rs. lakh	Rs. lakh	
30.09.16	Bank Dr.	65		1 lakh x Rs. 65
	To Unit Capital		10	1 lakh x Rs. 10
	To Reserves		50	1 lakh x Rs. 50
	To Dividend Equalisation		5	1 lakh x Rs. 5
31.03.17	Dividend Equalisation Dr.	5		

1M

1M

31.03.17	To Revenue A/c		5	10 lakh x Rs. 8.60	} 1M
	Revenue A/c	Dr.	86		
	To Bank		86		

- (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 paripassu change in favor of the workman to the extent of their portion. } **½M**

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realied} * \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}} \quad \} \quad \mathbf{\frac{1}{2}M}$$

$$\text{Workman's Share to Secured Asset} = \frac{4,00,00,000 * 1,25,00,000}{1,25,00,000 + 5,00,00,000}$$

$$4,00,00,000 * \frac{1}{5} \quad \} \quad \mathbf{\frac{1}{2}M}$$

$$\text{Workman's Share to Secured Assets} = 80,00,000$$

{Amount available to secured creditor is Rs.400 Lakhs–80 Lakhs = 320 Lakhs} **1M**
 {Hence, no amount is available for payment of government dues and unsecured creditors. } **1M**

- (d)

			Rs.	
a	Profit for equity fund after current cost adjustment		1,72,000	} ½M
b	Profit (as per Long-term fund approach)			
	Profit for equity fund	1,72,000		
	Add: Interest on Long-term loan (4,50,000 x 10%)	<u>45,000</u>	2,17,000	} ½M
c	Current cost of capital employed (by Equity approach)		10,40,000	} ½M
d	Capital employed as per Long-term fund approach			
	Current cost of capital employed (by Equity approach)	10,40,000		
	Add: 10% Long term loan	<u>4,50,000</u>	14,90,000	} ½M
e	Value of Goodwill			
	(A) By Equity Approach			
	Capitalised value of Profit as per equity approach = $\frac{1,72,000}{15.60} \times 100$		11,02,564	} ½M
	Less: Capital employed as per equity approach		(10,40,000)	} ½M
	Value of Goodwill		<u>62,564</u>	
	(B) By Long-Term Fund Approach			
	Capitalized value of Profit as per Long-term fund approach = $\frac{2,17,000}{13.5} \times 100$		16,07,407	} ½M

Less: Capital employed as per Long-term fund approach		(14,90,000) } ½M
Value of Goodwill		<u>1,17,407</u>

Leverage effect on Goodwill:

{Adverse Leverage effect on goodwill is Rs.54,843 (i.e.Rs.1,17,407–Rs.62,564).} **1M**

(e) Form B – RA (Prescribed by IRDA)

Name of the Insurer: X Fire Insurance Co. Ltd.

Registration No. and Date of registration with the IRDA:

Revenue Account for the year ended 31st March, 2013

	Particulars	Schedule	Current year ended on 31 st March, 2013	
			Rs.	
1.	Premiums earned (Net)	1	<u>8,40,000</u>	} ½M
	Total (A)		<u>8,40,000</u>	
1.	Claims incurred (Net)	2	8,00,000	} ½M
2.	Commission	3	50,000	} ½M
3.	Operating Expenses	4	<u>3,00,000</u>	} ½M
	Total (B)		<u>11,50,000</u>	
	Operating Profit/(Loss) from Fire Insurance Business [C =(A – B)]		(3,10,000)	} ½M

Schedule 1 Premiums earned (Net)

	Rs.	
Premium received	15,00,000	} 1M
Less: Premium on re-insurance paid	(1,00,000)	
	<u>14,00,000</u>	
Less: Reserve required for unexpired risk @ 40% of Net Premium	<u>5,60,000</u>	
Net Premium Earned	<u>8,40,000</u>	

Schedule 2 Claims

	Rs.	
Claims paid	7,00,000	} ½M
Add: Claims outstanding on 31.3.2013	1,00,000	
	<u>8,00,000</u>	

Schedule 3 Commission

	Rs.	
Commission paid during the year	50,000	} ½M
Total in the Year	<u>50,000</u>	

Schedule 4 Operating expenses

	Rs.	
Expenses of Management	3,00,000	} ½M
