

## PAPER – 5: ADVANCED ACCOUNTING

### PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2019 EXAMINATION

#### A. Applicable for November, 2019 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), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;

(B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-

(I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;

(II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

##### II. Maintenance of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)

Statutory Liquidity Ratio (SLR)

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in supersession of the notifications DBR.No.Ret.BC.14/12.02.001/2016-17 dated October 13, 2016 BR.NDBR.No.Ret.BC.91/12.02.001/2017-18 dated October 04, 2017, the Reserve Bank hereby specifies that with effect from the dates given below, every Scheduled Commercial Bank (including RRBs), Local Area Bank, Small Finance Bank, Payments Bank, Primary (urban) co-operative bank and State and central co-operative banks shall continue to maintain in India assets (referred to as ‘SLR assets’) the value of which shall not, at the close of business on any day, be less than:

- (i) 19.25 per cent from January 5, 2019
- (ii) 19.00 per cent from April 13, 2019
- (iii) 18.75 per cent from July 6, 2019
- (iv) 18.50 per cent from October 12, 2019
- (v) 18.25 per cent from January 4, 2020

(vi) 18.00 per cent from April 11, 2020

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time.

Cash Reserve Ratio (CRR)

The current Cash Reserve Ratio (CRR) is 4% of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76 /12.01.001/2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

**III. Merging three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called Investment and Credit Company (NBFC-ICC)**

As per circular RBI/2018-19/130 DNBR (PD) CC.No.097/03.10.001/2018-19 dated February 22, 2019, in order to provide NBFCs with greater operational flexibility, it has been decided that harmonisation of different categories of NBFCs into fewer ones shall be carried out based on the principle of regulation by activity rather than regulation by entity. Accordingly, it has been decided to merge the three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC). Investment and Credit Company (NBFC-ICC) means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the RBI in any of its Master Directions. (Circular DBR.BP.BC.No.25/21.06.001/2018-19 dated 22 February 2019)

Differential regulations relating to bank's exposure to the three categories of NBFCs viz, AFCs, LCs and ICs stand harmonised vide Bank's circular DBR.BP.BC.No.25/21.06.001/2018-19 dated February 22, 2019. Further, a deposit taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund. All related Master Directions (Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, Standalone Primary Dealers (Reserve Bank) Directions, 2016 and Residuary Non-Banking Companies (Reserve Bank) Directions, 2016) have also been updated accordingly.

**NOTE:** Chapters No. 2, 12, 13 and 14 have been revised and the revised chapters have been web hosted at the BoS Knowledge Portal. It is advised to refer the revised chapters.

**B. Not applicable for November, 2019 examination**

**I. Non-Applicability of Ind AS for November, 2019 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16<sup>th</sup> February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2019 Examination.

**II The Guidance Note on 'Accounting for Depreciation in Companies in context of schedule II to the Companies Act, 2013' is not applicable for November, 2019 Examination.**

**PART – II : QUESTIONS AND ANSWERS**

**QUESTIONS**

**Employee Stock Option Plans**

1. The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2016
Number of employees covered	50
Number of options granted per employee	1,000
Fair value of option per share on grant date (₹)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 65 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/17, 47 on 31/03/18. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2018-19 was ₹ 68.

You are required to compute expenses to be recognised in each year in the books of the company.

**Buy Back of Securities**

2. Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities

Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

### Equity Shares with Differential Rights

3. (a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹ 40 Lakh.

### Underwriting of Shares

4. A company made a public issue of 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4:3:2:1 respectively with the provision of firm underwriting of 5,000, 4,000, 2,000 and 2,000 shares respectively.

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55,000, 40,000, 42,000 and 8,000 shares were marked in favour of L, M, N and O respectively.

Calculate the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of underwriting is not given to the individual underwriter.

### Amalgamation of Companies

5. The following is the summarized Balance Sheet of A Ltd. as at 31<sup>st</sup> March, 2019:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
8,000 Equity shares of ₹ 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming

that the normal rate of return be 8% on the combined amount of share capital and general reserve.

- (2) B Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31<sup>st</sup> March, 2018 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31<sup>st</sup> March, 2018. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1<sup>st</sup> April, 2019 after the takeover.

**Internal Reconstruction of a Company**

- 6. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31<sup>st</sup> March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital			
50,000 shares of ₹ 50 each fully paid up	25,00,000	Goodwill	22,00,000
1,00,000 shares of ₹ 50 each ₹ 40 paid up	40,00,000	Land & Building	42,70,000
Capital Reserve	5,00,000	Machinery	8,50,000
8% Debentures of ₹ 100 each	4,00,000	Computers	5,20,000
12% Debentures of ₹ 100 each	6,00,000	Inventories	3,20,000
Trade payables	12,40,000	Trade receivables	10,90,000
Outstanding Expenses	10,60,000	Cash at Bank	2,68,000
Total	<u>1,03,00,000</u>	Profit & Loss Account	7,82,000
		Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

### Liquidation of a Company

7. Given below is the Balance Sheet of OM Limited as on 31.3.2019:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Share Capital:		Fixed Assets:	
14%, 1,60,000 cumulative preference shares of ₹100 each fully paid up	16,00,000	Land	1,60,000
32,000 equity shares of ₹100 each, ₹ 60 per share paid up	19,20,000	Buildings	6,40,000
Reserves and Surplus	NIL	Plant and Machinery	21,60,000
Secured Loans:		Patents	1,60,000
14% debentures	9,20,000	Investments	NIL
		Current Assets:	
		Inventory at cost	4,00,000

(Having a floating charge on all assets)		Trade receivables	9,20,000
Interest accrued on above debentures	1,28,800	Cash at bank	2,40,000
(Also having a floating charge as above)		Profit and Loss A/c	9,60,000
Loan on mortgage of land and building	6,00,000		
Unsecured Loan	NIL		
Current liabilities			
Trade payables	4,71,200		
	56,40,000		56,40,000

On 31.3.2019 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Trade payables include preferential creditors amounting to ₹ 1,20,000.

The assets realized the following sums:

Land ₹ 3,20,000; Buildings ₹ 8,00,000; Plant and machinery ₹ 20,00,000; Patent ₹ 2,00,000; Inventory ₹ 6,40,000; Trade receivables ₹ 8,00,000.

The expenses of liquidation amounted to ₹ 1,17,736. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2019. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

### Financial Statements of Insurance Companies

8. From the following information as on 31<sup>st</sup> March, 2019 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of ₹ 7,00,000:

Particulars	Amount ₹
Reserve for unexpired risk on 31st March, 2018	15,00,000
Additional reserve on 31st March, 2018	3,00,000
Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2018	1,95,000
Estimated liability in respect of outstanding claims on 31st March, 2019	2,70,000
Expenses of management (including ₹ 90,000 in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000

Re-insurance recoveries	60,000
Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	3,50,000

### Financial Statements of Banking Companies

9. The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31<sup>st</sup> March, 2019:

Rebate on bills discounted as on 1-4- 2018	1,36,518 (Cr.)
Discount received	3,40,312 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (₹)	Due date
5,60,000	June 1, 2019
17,44,000	June 8, 2019
11,28,000	June 21, 2019
16,24,000	July 1, 2019
12,00,000	July 5, 2019

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31<sup>st</sup> March, 2019 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

### NBFCs

10. While closing its books of account on 31<sup>st</sup> March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	13,400
Sub-standard assets	670
Secured portions of doubtful debts:	
– Up to one year	160
– one year to three years	45
– more than three years	20
Unsecured portions of doubtful debts	48
Loss assets	24



You are required to Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company –Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

### Mutual Funds

11. Surakshit Mutual Fund is registered with SEBI and is in the process of finalizing the annual statement of accounts of one of its open ended mutual fund schemes. From the information furnished below, you are required to prepare a statement showing the movement of unit holders' funds for the financial year ended 31<sup>st</sup> March, 2018.

	₹ '000
Opening Balance of net assets	54,00,000
Net Income for the year (Audited)	3,82,500
38,25,900 units issued during 2017-2018	4,34,250
33,85,350 units redeemed during 2017-2018	3,20,940
The par value per unit is ₹ 100	

### Valuation of Goodwill

12. The following is the summarized Balance Sheet of Mansa Ltd. as at 31<sup>st</sup> March, 2019:

<i>Liabilities</i>	<i>(₹ in lakhs)</i>	<i>Assets</i>	<i>(₹ in lakhs)</i>
Share Capital:		Fixed Assets:	
Equity shares of ₹ 10 each	1,200.00	Land and buildings	600.00
9% Preference share fully paid up	240.00	Plant and machinery	1,926.00
Reserve and Surplus:		Furniture and fixture	132.00
General reserve	288.00	Vehicles	120.00
Profit and Loss	729.60	Investments	240.00
Secured loans:		Inventory	162.00
10% Debentures	120.00	Trade Receivables	117.60
12% Term loan	432.00	Cash and bank	249.60
Trade Payables	384.00		
Provision for taxation	<u>153.60</u>		
	<u>3547.20</u>		<u>3547.20</u>

Non-trade investments were 15% of the total investments.

Balances as on 1.4.2018 to the following accounts were as: Profit and Loss account ₹ 259.20 lakhs, General reserve ₹ 276 lakhs. The company requires you to calculate the value of average capital employed.

**Consolidated Financial Statements**

13. The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31<sup>st</sup> March, 2019:

	H Ltd. (₹)	S Ltd. (₹)
<b><u>Equity and Liabilities</u></b>		
<b>Shareholders' Funds</b>		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
<b>Reserves and Surplus</b>		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
<b>Current Liabilities</b>		
Trade Payables	<u>3,25,000</u>	<u>1,25,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>
	H Ltd. (₹)	S Ltd. (₹)
<b><u>Assets</u></b>		
<b>Non-Current Assets</b>		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
<b>Non-Current Investments</b>		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
<b>Current Assets</b>		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	<u>1,64,000</u>	<u>32,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>

H Ltd. acquired the 80% shares of S Ltd. on 1<sup>st</sup> April, 2018. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1<sup>st</sup> April, 2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹ 40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at

10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31<sup>st</sup> March, 2019.

### Guidance Notes

14. (i) How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

### Accounting Standards

#### AS 7 Construction Contracts

- (ii) On 1<sup>st</sup> December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31<sup>st</sup> March, 2019 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31<sup>st</sup> March, 2019 based on AS 7 "Accounting for Construction Contracts."

#### AS 9 Revenue Recognition

15. The Board of Directors decided on 31.3.2019 to increase the sale price of certain items retrospectively from 1st January, 2019. In view of this price revision with effect from 1st January 2019, the company has to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. Accountant cannot make up his mind whether to include ₹ 15 lakhs in the sales for 2018-2019. Advise.

#### AS 18 Related Party Transactions

16. SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited?"

#### AS 19 Leases

17. Sun Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advice. (use annuity factor at @ 15% for 3 years as 3.36)

**AS 20 Earnings Per Share**

18. The following information relates to M/s. XYZ Limited for the year ended 31<sup>st</sup> March, 2019:

Net Profit for the year after tax: ₹ 37,50,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹ 100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

**AS 26 Intangible Assets**

19. K Ltd. launched a project for producing product X in October, 2018. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31<sup>st</sup> March, 2019. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

**AS 29 Provisions, Contingent Liabilities and Contingent Assets**

20. XYZ Ltd. has not made provision for warranty in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warranties on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29.

**SUGGESTED ANSWERS/HINTS**

1. The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than ₹ 65. The company should recognise value of option over 3-year vesting period from 2016-17 to 2018-19.

**Year 2016-17**

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme =  $48 \times 1,000 = 48,000$

Fair value =  $48,000 \times ₹ 9 = ₹ 4,32,000$

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = ₹ 4,32,000 /3 = ₹ 1,44,000

**Year 2017-18**

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000

Fair value = 47,000 × ₹ 9 = ₹ 4,23,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= (₹ 4,23,000/ 3) × 2 = ₹ 2,82,000

Value of option recognised as expense in 2016-17 = ₹ 1,44,000

Value of option recognised as expense in 2017-18

= ₹ 2,82,000 – ₹ 1,44,000 = ₹ 1,38,000

**Year 2018-19**

Fair value of option per share = ₹ 9

Number of shares actually vested under the scheme = 45 × 1,000 = 45,000

Fair value = 45,000 × ₹ 9 = ₹ 4,05,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 = ₹ 4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = ₹ 2,82,000

Value of option recognised as expense in 2018-19 = ₹ 4,05,000 – ₹ 2,82,000 = ₹ 1,23,000

2.

**Journal Entries in the books of Umesh Ltd.**

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c	Dr.	10,00,000	10,00,000

	(Being allotment of 1 lakh preference shares)			
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr.	16,00,000 32,00,000	48,00,000

**Working Notes:****1. Calculation of amount used from General Reserve Account**

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)	(10,00,000)
Less: Utilization of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

**2. Amount to be transferred to Capital Redemption Reserve account**

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000

Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	<u>(10,00,000)</u>
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

3. (a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$\begin{aligned}
 L &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \\
 M &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \\
 N &= \frac{2}{3} \times \frac{20}{100} = \frac{2}{15} \\
 O &= \frac{2}{3} \times \frac{20}{100} = \frac{2}{15} \\
 X &= \frac{1}{3} \times \frac{40}{100} = \frac{2}{15} \\
 Y &= \frac{1}{3} \times \frac{30}{100} = \frac{1}{10} \\
 Z &= \frac{1}{3} \times \frac{20}{100} = \frac{1}{15} \\
 K &= \frac{1}{3} \times \frac{10}{100} = \frac{1}{30}
 \end{aligned}$$

4. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	No. of shares				
	L	M	N	O	Total
Gross liability	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Applications (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting (WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)

Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Total Liability	20,000	16,500	2,000	11,500	50,000

**Working Note:**

Particulars	No. of shares
Applications received from public	1,50,000
Add: Firm underwriting	<u>13,000</u>
Total Applications	1,63,000
Less: Marked application	<u>(1,45,000)</u>
Unmarked application including firm underwriting	18,000

5.

**Books of A Limited****Realization Account**

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	<u>16,000</u>		
	<u>16,06,000</u>		<u>16,06,000</u>

**Bank Account**

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	<u>1,60,000</u>
	<u>7,36,000</u>		<u>7,36,000</u>

**10% Debentures Account**

To Bank	<u>4,00,000</u>	By Balance b/d	<u>4,00,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>



<b>Loan Account</b>			
To Bank	<u>1,60,000</u>	By Balance b/d	<u>1,60,000</u>
	<u>1,60,000</u>		<u>1,60,000</u>
<b>Share Issue Expenses Account</b>			
To Balance b/d	<u>34,000</u>	By Equity shareholders	<u>34,000</u>
	<u>34,000</u>		<u>34,000</u>
<b>General Reserve Account</b>			
To Equity shareholders	<u>80,000</u>	By Balance b/d	<u>80,000</u>
	<u>80,000</u>		<u>80,000</u>
<b>B Ltd. Account</b>			
To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹ 125 each)	<u>6,10,000</u>
	<u>12,10,000</u>		<u>12,10,000</u>
<b>Equity Shares in B Ltd. Account</b>			
To B Ltd.	<u>6,10,000</u>	By Equity shareholders	<u>6,10,000</u>
	<u>6,10,000</u>		<u>6,10,000</u>
<b>Equity Share Holders Account</b>			
To Realization Account	76,000	By Equity share capital	8,00,000
To Share issue Expenses	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	<u>1,60,000</u>		
	<u>8,80,000</u>		<u>8,80,000</u>

**B Ltd**  
**Balance Sheet as on 1<sup>st</sup> April, 2019 (An extract)\***

	<i>Particulars</i>	<i>Notes</i>	<i>₹</i>
	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
<b>2</b>	<b>Current liabilities</b>		
a	Trade Payables	3	2,80,000

\* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

b	Bank overdraft		6,00,000
	<b>Total</b>		14,75,000
	<b>Assets</b>		
<b>1</b>	<b>Non-current assets</b>		
a	Property, Plant and Equipment		
	Tangible assets	4	8,82,000
	Intangible assets	5	2,16,000
<b>2</b>	<b>Current assets</b>		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

**Notes to Accounts**

			₹
<b>1</b>	<b>Share Capital</b>		
	Equity share capital		
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		4,88,000
	<b>Total</b>		<u>4,88,000</u>
<b>2</b>	<b>Reserves and Surplus (an extract)</b>		
	Securities Premium		1,22,000
	Profit and loss account	.....	
	Less: Unrealized profit	(15,000)	(15,000)
	<b>Total</b>		<u>1,07,000</u>
<b>3</b>	<b>Trade payables</b>		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
<b>4</b>	<b>Tangible assets</b>		
	Buildings		3,06,000
	Machinery		5,76,000
	<b>Total</b>		<u>8,82,000</u>
<b>5</b>	<b>Intangible assets</b>		
	Goodwill		2,16,000

<b>6</b>	<b>Inventories</b>		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
<b>7</b>	<b>Trade receivables</b>		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

**Working Notes:**

<b>1. Valuation of Goodwill</b>	₹
Average profit	1,24,400
Less: 8% of ₹ 8,80,000	<u>(70,400)</u>
Super profit	<u>54,000</u>
Value of Goodwill = 54,000 x 4	<u>2,16,000</u>
<b>2. Net Assets for purchase consideration</b>	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	<u>2,34,000</u>
Total Assets	15,30,000
Less: Trade payables	<u>(3,20,000)</u>
Net Assets	<u>12,10,000</u>

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted  $6,10,000/125 = 4,880$  shares.

<b>3. Unrealized Profit on Inventory</b>	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be	
$\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	<u>(10,000)</u>
Amount of unrealized profit	<u>15,000</u>

## 6. Journal Entries in the books of Platinum Ltd.

		₹	₹
Bank A/c (1,00,000 x ₹ 10)	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹ 50) A/c	Dr.	75,00,000	
To Equity share capital (₹ 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹ 40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To Shiv A/c			7,00,000
(Being cancellation of 8% and 12% debentures of Shiv)			
Bank A/c	Dr.	1,00,000	
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			
Shiv A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To Ganesh A/c			3,00,000
(Being cancellation of 8% and 12% debentures of Ganesh)			

Ganesh A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.	9,14,000	
(51,84,000 – 42,70,000)			
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Goodwill A/c			22,00,000
To Profit and Loss A/c			7,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)			
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

**Balance Sheet (as reduced) as on 31.3.2019**

<i>Particulars</i>		<i>Notes</i>	<i>₹</i>
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	80,00,000
<b>2</b>	<b>Non-current liabilities</b>		
a	Long-term borrowings	2	<u>8,50,000</u>
	<b>Total</b>		<b><u>88,50,000</u></b>

<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
a	Property, Plant and Equipment		
	Tangible assets	3	63,04,000
<b>2</b>	<b>Current assets</b>		
a	Inventories		3,50,000
b	Trade receivables		9,81,000
c	Cash and cash equivalents		<u>12,15,000</u>
	<b>Total</b>		<b><u>88,50,000</u></b>

**Notes to accounts**

			₹
<b>1.</b>	<b>Share Capital</b>		
	2,00,000 Equity shares of ₹ 40		80,00,000
<b>2.</b>	<b>Long-term borrowings</b>		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
<b>3.</b>	<b>Tangible assets</b>		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	<u>4,00,000</u>	63,04,000

**Working Notes:**1. **Cash at Bank Account**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. **Capital Reduction Account**

Particulars		₹	Particulars		₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Goodwill A/c	22,00,000	By	Ganesh A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	<u>5,00,000</u>
		<u>33,41,000</u>			<u>33,41,000</u>

7. **OM Ltd.**

**Liquidator's Final Statement of Account**

Receipts	Value Realised		Payments ₹	Payments ₹
<i>Assets Realised:</i>				
Cash at Bank	2,40,000	Liquidator's Remuneration (W.N. 1)		1,02,224
Trade receivables	8,00,000	Liquidation Expenses		1,17,736
Inventory	6,40,000	Debentureholders:		
Plant and Machinery	20,00,000	14% Debentures	9,20,000	
Patent	2,00,000	Interest Accrued (W.N. 2)	<u>1,61,000</u>	10,81,000
Surplus from Securities (W.N. 3)	5,20,000	Creditors:		
		Preferential	1,20,000	
		Unsecured	<u>3,51,200</u>	4,71,200
		Preference Shareholders:		
		Preference Share Capital	16,00,000	
		Arrears of Dividend	<u>2,24,000</u>	18,24,000
		Equity Shareholders (W.N.4)		
		₹ 25.12 per share on 32,000 shares		<u>8,03,840</u>
	<u>44,00,000</u>			<u>44,00,000</u>

**Working Notes:**

		₹
1	Liquidator's remuneration:	
	2% on assets realised (2% of ₹47,60,000)	95,200
	2% on payments to unsecured creditors (2% on ₹3,51,200)	<u>7,024</u>
		<u>1,02,224</u>
2	Interest accrued on 14% Debentures:	
	Interest accrued as on 31.3.2019	1,28,800
	Interest accrued upto the date of payment i.e. 30.6.2019	<u>32,200</u>
		<u>1,61,000</u>
3	Surplus from Securities:	
	Amount realised from Land and Buildings (₹3,20,000 + ₹8,00,000)	11,20,000
	Less: Mortgage Loan	<u>(6,00,000)</u>
		<u>5,20,000</u>
4	Amount payable to Equity Shareholders:	
	Equity share capital (paid up)	19,20,000
	Less: Amount available for equity shareholders	<u>(8,03,840)</u>
	Loss to be borne by equity shareholders	<u>11,16,160</u>
	Loss per equity share (₹11,16,160/32,000)	34.88
	Amount payable to equity shareholders for each equity share (60-34.88)	25.12

8.

**FORM B- RA****Name of the Insurer: Xeta Insurance Company Limited****Registration No. and Date of registration with IRDA: .....****Revenue Account for the year ended 31<sup>st</sup> March, 2019**

Particulars	Schedule	Amount (₹)
Premium earned (net)	1	26,67,500
Profit on sale of investment		30,000
Others		-
Interest and dividend (gross)		1,50,000



Total (A)		28,47,500
Claims incurred (Net)	2	20,25,000
Commission	3	3,50,000
Operating expenses related to insurance	4	7,50,000
Total (B)		31,25,000
Operating loss from insurance business (A) – (B)		2,77,500

**Schedule –1 Premium earned (net)**

	₹
Premium received	33,60,000
Less: Premium on reinsurance ceded	(2,25,000)
Net Premium	31,35,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(4,67,500)
Total premium earned	26,67,500

**Schedule -2 Claims incurred (net)**

	₹
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31 <sup>st</sup> March, 2019	2,70,000
	22,20,000
Less: Claims outstanding as on 31 <sup>st</sup> March, 2018	(1,95,000)
	20,25,000

**Schedule -3 Commission**

	₹
Commission paid	3,50,000

**Schedule-4 Operating expenses related to Insurance Business**

	₹
Expenses of management (8,40,000 - 90,000)	7,50,000

**Working Note:****Calculation for change in Reserve for Unexpired risk:**

		₹
Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2019 (50% of 31,35,000)	15,67,500	
Additional Reserve as on 31 <sup>st</sup> March, 2019	<u>7,00,000</u>	22,67,500
Less: Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2018	15,00,000	
Additional Reserve as on 31 <sup>st</sup> March, 2018	<u>3,00,000</u>	<u>(18,00,000)</u>
		4,67,500

9. The amount of rebate on bills discounted as on 31<sup>st</sup> March, 2019 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹5,60,000 for 62 days @ 10%	9,512
Discount on ₹17,44,000 for 69 days @ 10%	32,969
Discount on ₹11,28,000 for 82 days @ 10%	25,341
Discount on ₹16,24,000 for 92 days @ 10%	40,934
Discount on ₹12,00,000 for 96 days @ 10%	<u>31,562</u>
Total	<u>1,40,318</u>

**Note:** The due date of the bills discounted is included in the number of days above.

**The amount of discount to be credited to the profit and loss account will be:**

	₹
Transfer from rebate on bills discounted as on 31.03. 2018	1,36,518
Add: Discount received during the year	<u>3,40,312</u>
	4,76,830
Less: Rebate on bills discounted as on 31.03. 2019 (as above)	<u>(1,40,318)</u>
	<u>3,36,512</u>

**Journal Entries**

		₹	₹
Rebate on bills discounted A/c	Dr.	1,36,518	
To Discount on bills A/c			1,36,518
(Transfer of opening unexpired discount on 31.03. 2018)			
Discount on bills A/c	Dr.	1,40,318	
To Rebate on bills discounted A/c			1,40,318
(Unexpired discount on 31.03. 2019 taken into account)			

Discount on Bills A/c To P & L A/c (Discount earned in the year, transferred to P&L A/c)	Dr.	3,36,512	3,36,512
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**10. Calculation of provision required on advances as on 31<sup>st</sup> March, 2018:**

	<i>Amount ₹ in lakhs</i>	<i>Percentage of provision</i>	<i>Provision ₹ in lakhs</i>
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
–up to one year	160	20	32
–one year to three years	45	30	13.5
–more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	<u>24</u>
			<u>851.10</u>

**11. Statement showing the Movement of Unit Holders' Funds  
for the year ended 31<sup>st</sup> March, 2018**

	(₹ '000)
Opening balance of net assets	54,00,000
Add: Par value of units issued (38,25,900 × ₹ 100)	3,82,590
Net Income for the year	3,82,500
Transfer from Reserve/Equalisation fund (Refer working note)	<u>69,255</u>
	62,34,345
Less: Par value of units redeemed (33,85,350 × ₹ 100)	<u>(3,38,535)</u>
Closing balance of net assets (as on 31 <sup>st</sup> March, 2018)	<u>58,95,810</u>

**Working Note:**

<i>Particulars</i>	<i>Issued</i>	<i>Redeemed</i>
Units	38,25,900	33,85,350
	₹ 000	₹ 000
Par value	3,82,590	3,38,535
Sale proceeds / Redemption value	4,34,250	3,20,940

Profit transferred to Reserve / Equalization Fund	51,660	17,595
Balance in Reserve / Equalization Fund (Issued & Redeemed)	69,255	

12.

**Computation of Average Capital employed**

	(₹ in lakhs)	
Total Assets as per Balance Sheet		3,547.20
Less: Non-trade investments (15% of ₹240 lakhs)		<u>(36.00)</u>
		3,511.20
Outside Liabilities:		
10% Debentures	120.00	
12% Term Loan	432.00	
Trade Payables	384.00	
Provision for Taxation	<u>153.60</u>	<u>(1,089.60)</u>
Capital Employed as on 31.03.2019		2,421.60
Less: ½ of profit earned during the year:		
Increase in General Reserve balance	12.00	
Increase in Profit & Loss A/c	<u>470.40</u>	
	<u>482.40</u>	<u>241.20</u>
Average capital employed		<u>2,180.40</u>

13

**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.****as at 31st March, 2019**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of ₹ 10 each)		
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		<u>25,25,500</u>

II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(b) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

**Notes to Accounts**

		₹	
1.	Reserves and Surplus		
	General Reserves	4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)	<u>84,000</u>	5,19,000
	Profit and Loss Account	2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200	
	Less: Unrealised gain	<u>(4,000)</u>	<u>2,97,200</u>
			<u>8,16,200</u>
2.	Trade Payables		
	H Ltd.	3,25,000	
	S Ltd.	1,25,000	
	Less: Mutual transaction	<u>(40,000)</u>	4,10,000
3.	Tangible Assets		
	Machinery		
	H Ltd.	6,40,000	
	S Ltd.	2,00,000	
	Add: Appreciation	<u>1,00,000</u>	
		3,00,000	
	Less: Depreciation	<u>(30,000)</u>	<u>2,70,000</u>
	Furniture		
	H. Ltd.	3,75,000	
	S Ltd.	40,000	

	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				<u>13,10,500</u>
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		<u>62,000</u>	3,30,000
	Less: Inventory reserve			<u>(5,000)</u>
				<u>3,25,000</u>
6.	Trade Receivables			
	H Ltd.		4,73,000	
	S Ltd.		<u>2,37,000</u>	
				7,10,000
	Less: Mutual transaction			<u>(40,000)</u>
				<u>6,70,000</u>
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		<u>32,000</u>	1,96,000

**Working Notes:**

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018

	₹
<b>Machinery</b>	
Revaluation as on 1.4.2018	3,00,000
Less: Book value as on 1.4.2018	<u>(2,00,000)</u>
Profit on revaluation	<u>1,00,000</u>
<b>Furniture</b>	
Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	<u>(40,000)</u>
Loss on revaluation	<u>(10,000)</u>

2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)

Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	<u>1,500</u>

**3. Analysis of reserves and profits of S Ltd. as on 31.03.2019**

	Pre-acquisition profit upto 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000		35,000
Upward Revaluation of machinery as on 1.4.2018	1,00,000		
Downward Revaluation of Furniture as on 1.4.2018	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			<u>1,500</u>
Total	<u>1,70,000</u>	<u>1,05,000</u>	<u>26,500</u>

**4. Minority Interest**

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000))	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	<u>5,300</u>
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	<u>(1,000)</u>
	<u>99,300</u>

**5. Cost of Control or Goodwill**

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves		

(₹ 64,000 + ₹72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		<u>24,000</u>

14. (i) In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realization should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

- (ii) **Calculation of foreseeable loss for the year ended 31<sup>st</sup> March, 2019**  
(as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31 <sup>st</sup> March, 2019	83.99
Prudent estimate of additional cost for completion	<u>36.01</u>
Total cost of construction	120.00
Less: Contract price	<u>(108.00)</u>
Foreseeable loss	<u>12.00</u>

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31<sup>st</sup> March, 2019.

15. Price revision was effected during the current accounting period 2018-2019. As a result, the company stands to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2018-2019 vide para 10 of AS 9.
16. Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.



17. As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment\* amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	3.36
Present Value of minimum lease payments (₹ 3 lakhs each year)	₹ 10.08 lakhs (approx.)

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

**18. Computation of basic earnings per share**

Net profit for the current year / Weighted average number of equity shares outstanding during the year

$$₹ 37,50,000 / 5,00,000 = ₹ 7.50 \text{ per share}$$

**Computation of diluted earnings per share**  $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

**Adjusted net profit for the current year**

	₹
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of ₹ 4,00,000)	<u>(1,20,000)</u>
Adjusted net profit for the current year	<u>40,30,000</u>

**Number of equity shares resulting from conversion of debentures**

= 55,000 Equity shares (given in the question)

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\* In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

**Weighted average number of equity shares used to compute diluted earnings per share**

= 5,55,000 shares (5,00,000 + 55,000)

**Diluted earnings per share**

= 40,30,000 / 5,55,000 = ₹ 7.26 per share

**Note:** Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

19. As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31<sup>st</sup> March, 2019.

20. As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.