(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 28.01.2020 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

PAPER : ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.
Question No. 1 is compulsory.
Candidates are also required to answer any Four questions from the remaining Five Questions.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then all answers shall be valued and best four will be considered.
Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Answer 1:

(a) Following will be the treatment in the given cases:

(a) When sales price of Rs. 50 lakhs is equal to fair value, Reliance Ltd. should immediately recognise the profit of Rs. 10 lakhs (i.e. 50 – 40) in its books. **{3/4 M}**

(b) When fair value is Rs. 60 lakhs then also profit of Rs. 10 lakhs should be immediately recognised by Reliance Ltd. **{3/4 M}**

(c) When fair value of leased machinery is Rs. 45 lakhs & sales price is Rs. 38 lakhs, then loss of Rs. 2 lakhs (40 – 38) to be immediately recognised by Reliance Ltd. in its books provided loss is not compensated by future lease payment. **{1.25 M}**

(d) When fair value is Rs. 40 lakhs & sales price is Rs. 50 lakhs then, profit of Rs. 10 lakhs is to be deferred and amortised over the lease period. **{3/4 M}**

(e) When fair value is Rs. 46 lakhs & sales price is Rs. 50 lakhs, profit of Rs. 6 lakhs (46-40) to be immediately recognised in its books and balance profit of Rs.4 lakhs (50-46) is to be amortised/deferred over lease period. **{3/4 M}**

(f) When fair value is Rs. 35 lakhs & sales price is Rs. 39 lakhs, then the loss of Rs. 5 lakhs (40-35) to be immediately recognised by Reliance Ltd. in its books and profit of Rs. 4 lakhs (39-35) should be amortised/deferred over lease period. **{3/4 M}**

Answer:

(b) 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 share holder/weighted average number of equity shares outstanding 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 right issue) $\frac{\text{Rs. } 30{,}00{,}000}{(10{,}00{,}000 \text{ x } 1.04 \text{ x } 4/12)+(12{,}00{,}000 \text{ x } 8/12)}$		2.62	**(2M)**

Working Notes:

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

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

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

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

2. Computation of adjustment factor

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

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

Answer:

(c) 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:

(d) • 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 $\left(\frac{112\,\text{lakhs}}{10\,\text{year}}\times 3\,\text{years}\right)$ = Rs. 78.4 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**

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 equity share of Rs. 50 each (Rs. 5 × 1,000) See WN below	**5,000**	Calls in advance	**5,000**
		Equity shareholders of Rs. 100 each (3,000 × Rs. 30)	**90,000**
	4,28,000		4,28,000

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

(2 M)

(ii) 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)**

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

(iv) Therefore for equity shareholders of Rs. 100 each $\left(15\times\dfrac{100}{50}\right)$ **(1M)**
= Rs. 30 per share to equity shareholders of Rs. 100 each.

(v) Calls in advance must be paid first, so as to pay the shareholders on pro rata basis. **(½M)**

(vi) Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share. **(1M)**

Answer:
(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
(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)

(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

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

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

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 Figure Rs. 1,00,000 | Rs. 1,20,000 <u>Rs. 3,25,000</u> | <u>Rs. 3,87,500</u> Total Rs. 4,25,000 | Rs. 5,07,500 Profit on revaluation Rs. 82,500)	82,500	 82,500	 **(1M)**
"	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 Capital Reduction 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 equity shares of Rs. 90,000, cash payments of 5,000 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 amount due, 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 and loss account and reducing the value of stock, 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) Preference share capital 4,000 6% Preference shares of Rs. 75 each		2,64,000 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)**

Answer:

(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 **(1/2 M)**

Note: Difference to be Adjusted from G.R.

Purchase Consideration	55,00,000
Paid up capital of H. Ltd.	(50,00,000)
	5,00,000 **(1/2 M)**

(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) 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)**

Answer:

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

		Rs. in 000	
Paid up Equity Capital		**100**	**}½M**
Free Reserves		**500**	**}½M**
		600	
Less: Deferred expenditure		**(200)**	**}½M**
	A	**400**	**}½M**
Investments			
In shares of subsidiaries and group companies		**100**	**}½M**
In debentures of subsidiaries and group companies		**100**	**}½M**
	B	**200**	**}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)		**240**	**}½M**

Answer:

(c) (i) Realisation Account

		Rs.			Rs.
To	Fixed assets	**5,00,000**	By	Creditors	**3,20,000**
To	Stock in trade	**3,00,000**	By	Cash (5,20,000+4,40,000)	**9,60,000**
To	Debtors	**5,00,000**	By	Y (Stock taken over)	**2,50,000**
To	Cash - Expenses	**6,000**	By	Loss transferred to partners' capital accounts	
To	Cash -Creditors (3,20,000 x 95%)	**3,04,000**		X	**35,555**
				Y	**26,667**
				Z	**17,778**
		16,10,000			**16,10,000**

{13 Item x 1/4 = 3.25 M}

(ii) Partners' Capital Accounts

		X Rs.	Y Rs.	Z Rs.			X Rs.	Y Rs.	Z Rs.
To	Realisation Account	**35,555**	**26,667**	**17,778**	By	Balance b/d	**4,00,000**	**3,00,000**	**2,00,000**
To	Realisation Account	-	**2,50,000**	-	By	General reserve	**40,000**	**30,000**	**20,000**
To	Cash	**4,04,445**	**53,333**	**2,02,222**					
		4,40,000	**3,30,000**	**2,20,000**			**4,40,000**	**3,30,000**	**2,20,000**

{19 Item x 1/4 = 4.75 M}

(iii) Cash Account

		Rs.			Rs.
To	Balance b/d	10,000	By	Realisation A/c (Expenses)	6,000
To	Realisation A/c (Fixed assets and book debts realised)	9,60,000	By	Realisation A/c (Creditors)	3,04,000
			By	X	4,04,445
			By	Y	53,333
			By	Z	2,02,222
		9,70,000			9,70,000

{2 M}

Answer 5:

Consolidated Balance Sheet of A Ltd. and its subsidiary, B Ltd. as on 31st December, 2016

Particulars	Note No.	(Rs.)
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	**5,00,000**
(b) Reserves and Surplus	2	**3,08,800**
(2) **Minority Interest (W.N 5)**		**83,600**
(3) **Current Liabilities**		
(a) Trade Payables	3	**64,500**
(b) Short term borrowings	4	**80,000**
Total		**10,36,900**
II. **Assets**		
(1) **Non-current assets**		
Fixed assets		
(i) Tangible assets	5	**7,41,000**
(ii) Intangible assets	6	**17,200**
(2) **Current assets**		
(a) Inventories	7	**1,56,400**
(b) Trade receivables	8	**99,800**
(c) Cash & Cash equivalents (Cash)	9	**22,500**
Total		**10,36,900**

(12 item x 1/2 M = 6 M)

Notes to Accounts

				Rs.	
1.	**Share Capital**				
	5,000 shares of Rs. 100 each			**5,00,000**	(1/2 M)
2.	**Reserves and Surplus**				
	Reserves		2,40,000		
	Profit & loss (W.N.8)		68,800	**3,08,800**	(1/2 M)
3.	**Trade Payables**				
	A Ltd.	47,100			
	B Ltd.	17,400		**64,500**	(1/2 M)
4.	**Short term borrowings**				
	Bank overdraft			**80,000**	(1/2 M)

5.	**Tangible Assets**				
	Land and building (1,50,000 + 1,80,000)		3,30,000		
	Plant & Machinery (W.N 7)		4,11,000	**7,41,000**	**(1/2 M)**
6.	**Intangible assets**				
	Goodwill (W.N 6)			**17,200**	**(1/2 M)**
7.	**Inventories**				
	A Ltd.		1,20,000		
	B Ltd.		36,400	**1,56,400**	**(1/2 M)**
8	**Trade Receivables**				
	A Ltd.	59,800			
	B Ltd.	40,000		**99,800**	**(1/2 M)**
9	**Cash & Cash equivalents**				
	Cash				
	A Ltd.		14,500		
	B Ltd.		8,000	**22,500**	**(1/2 M)**

Share holding Pattern

Total Shares of B Ltd 2,000 shares
Shares held by A Ltd 1,600 shares i.e. 80 % **(1/2 M)**
Minority Shareholding 400 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 1,600 shares - Rs. 16,000 received by A Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. A Ltd., must pass a rectification entry, viz. **(3/4 M)**

   Profit & Loss Account Dr. Rs. 16,000
   To Investment Rs. 16,000

2. The Plant & Machinery of B Ltd. would stand in the books at Rs. 1,42,500 on 1st July, 2016, considering only six months' depreciation on Rs. 1,50,000 total depreciation being Rs. 15,000. The value put on the assets being Rs. 1,80,000, there is an appreciation to the extent of Rs. 37,500. **(3/4 M)**

3. **Capital profits of B Ltd.:**

	Rs.	Rs.
Reserve on 1st January, 2016		1,00,000
Profit & Loss Account Balance on 1st January, 2016	30,000	
Less: Dividend paid	(20,000)	10,000
Profit for 2016: Total Rs. 82,000 less Rs. 10,000		
i.e. Rs. 72,000; upto 1st July, 2016		36,000
Appreciation in value of Plant & Machinery		37,500
		1,83,500
Less: 20% due to outsiders		(36,700)
Holding company's share		1,46,800

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

4. **Revenue profits of B Ltd.:**

Profit after 1st July, 2016 [82,000 – 10,000] x ½	36,000
Less: 10% depreciation on Rs. 1,80,000 for 6 months less depreciation already	
Charged for 2nd half year on 1,50,000 (9,000 – 7,500)	(1,500)
	34,500
Less: 1/5 due to outsiders	(6,900)
Share of A Ltd.	27,600

(1 M)

5. **Minority interest:**

Par value of 400 shares	40,000
Add: 1/5 Capital Profits [WN 3]	36,700
1/5 Revenue Profits [WN 4]	6,900
	83,600

(1 M)

6. **Cost of Control:**

Amount paid for 1,600 shares	3,40,000	
Less: Dividend out of pre-acquisition profits	(16,000)	3,24,000
Par value of shares	1,60,000	
Capital Profits – share of A Ltd. [WN 3]	1,46,800	(3,06,800)
Cost of Control or Goodwill		17,200

(2 M)

7. **Value of plant & Machinery:**

A Ltd.		2,40,000
B Ltd.	1,35,000	
Add: Appreciation on 1st July, 2016 [1,80,000 – (1,50,000 – 7,500)]	37,500	
	1,72,500	
Add: Deprecation for 2nd half charged on pre- revalued value	7,500	
Less: Depreciation on Rs.1,80,000 for 6 months	(9,000)	1,71,000
		4,11,000

(1 M)

8. **Profit & Loss Account (Consolidated):**

A Ltd. as given	57,200	
Less: Dividend transferred to Investment A/c	(16,000)	41,200
Share of A Ltd. in revenue profits of B Ltd. (WN 4)		27,600
		68,800

(1 M)

Answer 6:

(a) 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:

(b) **Calculation of foreseeable loss for the year ended 31st March, 2019 (as per AS 7 "Construction Contracts")**

	(Rs. in lakhs)
Cost incurred till 31st March, 2019	**83.99**
Prudent estimate of additional cost for completion	**36.01**
Total cost of construction	**120.00**
Less: Contract price	**(108.00)**
Foreseeable loss	**12.00**

5 items x ½ M

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 Rs. 12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019. **{2½ M}**

Answer:

(c) **In the books of Company Journal Entries**

Date	Particulars	Dr. Rs.	Cr. Rs.
01-03-X2 to 31-03-X2	Bank A/c Dr. Employees compensation expenses A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)	2,40,000 4,32,000	 48,000 6,24,000
31-03-X2	Profit and Loss account Dr. To Employees compensation expenses A/c (Being transfer of employee compensation expenses)	4,32,000	 4,32,000

{1.5 M} **{1.5 M}**

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000/- in total. **{1/2 M}**
2. The Employees Compensation Expense is transferred to Securities Premium Account. **{1/2 M}**
3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6,24,000/- in total. **{1 M}**

Answer:

(d) Tax as per accounting profit 6,00,000 x 20% = **Rs. 1,20,000**

Tax as per Income-tax Profit 60,000 x 20% = **Rs. 12,000**

Tax as per MAT 3,50,000 x 7.50% = **Rs. 26,250** **{3 item x 1/2 M}**

Tax expense = Current Tax +Deferred Tax

Rs. 1,20,000 = Rs. 12,000+ Deferred tax

Therefore, Deferred Tax liability as on 31-03-2017

= Rs. 1,20,000 – Rs. 12,000 = Rs. 1,08,000 **{1½ M}**

Amount of tax to be debited in Profit and Loss account for the year 31-03-2017

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 12,000 + Rs. 1,08,000 + Rs. 14,250 (26,250 – 12,000)

= Rs. 1,34,250 **{2 M}**

Answer:

(e) E, F, G and H hold Equity capital is held by in the proportion of 30:30:20:20 and S,T,U and V hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is Rs. 120 Lakhs and Preference share capital is Rs. 60 Lakhs & (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. **(1 M)**

The respective voting right of various shareholders will be-

E	=	2/3X30/100	=	**3/15**
F	=	2/3X30/100	=	**3/15**
G	=	2/3X20/100	=	**2/15**
H	=	2/3X20/100	=	**2/15**
S	=	1/3X40/100	=	**2/15**
T	=	1/3X30/100	=	**1/10**
U	=	1/3X10/100	=	**1/30**
V	=	1/3X20/100	=	**1/15**

(8 item x 1/2 M = 4 M)

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