(ALL CA INTERMEDIATE BATCHES)

DATE: 08.01.2021 **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) 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: **{1$^{1/2}$ M}**

Annuity Factor (Year 1 to Year 5)	3.36 (approx.)
Present Value of minimum lease payments (Rs.3 lakhs each year)	Rs. 10.08 lakhs (approx.)

{1 M}

Thus present value of minimum lease payments is Rs. 10.08 lakhs and the fair value of the machine is Rs. 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 five 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. **{2$^{1/2}$ M}**

Answer:

(b) Computation of Basic Earnings per share-

		Year 2015-16 (Rs.)	Year 2016-17 (Rs.)	
(i)	EPS for the year 2015-16 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year Rs. 35,00,000 / 15,00,000 shares	2.33		**{1 M}**
(ii)	EPS for the year 2015-16 restated for the right issue Rs. 35,00,000 / 15,00,000 shares x 1.08	2.16		**{1 M}**
(iii)	EPS for the year 2016-17 (including effect of right issue) Rs. 45,00,000 / [15,00,000 x 1.08 x 4/12)+ (20,00,000 x 8/12)]		2.40	**{1 M}**

Working Notes:

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

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$ **{1/2 M}**

[(Rs. 35 x 15,00,000) + (Rs. 25 x 5,00,000)] / (15,00,000 + 5,00,000) = Rs. 32.5 **{1/2 M}**

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$ **{1/2 M}**

= Rs. 35 / 32.50 = 1.08 (approx.) **{1/2 M}**

Answer :

(c) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Saj, a relative of key management personnel should be identified as relative as at the closing date i.e. on 31.3.2017. **{5 M}**

Answer:

(d) (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. **{$1^{1/2}$ M}**

Tun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Tun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Tun Ltd. should provide for the contingency amounting Rs. 1.5 crores as per AS 29. **{1 M}**

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting Rs. 1.50 crores. **{$2^{1/2}$ M}**

Answer 2:

(a)

In the Books of Rax Ltd.

01.04.2013	Particulars		Dr. Amount Rs.	Cr. Amount Rs.	
	Equity share capital A/c To Equity share capital A/c (Being sub-division of one share of Rs. 100 each into 10 shares of Rs. 10 each)	Dr.	15,00,000	15,00,000	{1/2 M}
	Equity share capital A/c To Capital reduction A/c (Being reduction of Equity capital by 50%)	Dr.	7,50,000	7,50,000	{1/2 M}
	Capital reduction A/c To Bank A/c (Being payment in cash of 10% of arrear of preference dividend)	Dr.	13,500	13,500	{1/2 M}

	Bank A/c To Own debentures A/c To Capital reduction A/c (Being profit on sale of own debentures of Rs. 80,000 transferred to capital reduction A/c)	Dr.	78,400	76,800 1,600	}{1/2 M}
	12% Debentures A/c To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr.	1,20,000	1,15,200 4,800	}{1/2 M}
	12% Debentures A/c Capital reduction A/c To Machinery A/c (Being machinery taken up by debenture holders for Rs. 2,80,000)	Dr. Dr.	2,80,000 20,000	3,00,000	}{1/2 M}
	Trade payables A/c Capital reduction A/c (balancing figure) To Trade receivables A/c To Inventory A/c (Being assets and liabilities revalued)	Dr. Dr.	65,000 29,000	61,000 33,000	}{1/2 M}
	Capital reduction A/c To Goodwill A/c To Discount on debentures A/c To Profit and Loss A/c (Being the above assets written off)	Dr.	4,33,000	20,000 2,000 4,11,000	}{1/2 M}
	Capital reduction A/c To Bank A/c (Being penalty paid for avoidance of capital commitments)	Dr.	15,000	15,000	}{1/2 M}
	Capital reduction A/c To Capital reserve A/c (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	2,45,900	2,45,900	}{1/2 M}
02.04.2013	Business Purchase A/c To Liquidators of Gini Ltd. (Being the purchase consideration payable to Gini Ltd.)	Dr.	13,20,000	13,20,000	}{1/2 M}
	Fixed Assets A/c Inventory A/c Trade receivables A/c Cash at Bank A/c To Trade payables A/c To 12% Debentures A/c of Gini Ltd. To Profit and Loss A/c To General reserve A/c Rs (1,70,000+80,000*) To Business purchase A/c (Being the take over of all assets and liabilities of Gini Ltd. by Rax Ltd.)	Dr. Dr. Dr. Dr.	7,60,000 6,80,000 4,40,000 1,30,000	2,25,000 2,00,000 15,000 2,50,000 13,20,000	}{1/2 M}
	Liquidators of Gini Ltd. A/c To Equity Share Capital To 9% Preference share capital (Being the purchase consideration discharged)	Dr.	13,20,000	10,00,000 3,20,000	}{1/2 M}
	12% Debentures of Gini Ltd. A/c To 12% Debentures A/c	Dr.	2,00,000	2,00,000	}{1/2 M}

	(Being Rax Ltd. issued their 12% Debentures in against of every Debentures of Gini Ltd.)		

Balance Sheet of Rax Ltd. as at 2.4.2013

Particulars	Note No	Amount (Rs.)
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
(a) Share Capital	1	**25,70,000**
(b) Reserves and Surplus	2	**6,90,900**
(2) **Non-Current Liabilities**		
(a) Long-term borrowings – 12% Debentures		**4,00,000**
(3) **Current Liabilities**		
(a) Trade payables		**5,75,000**
Total		**42,35,900**
II. Assets		
(1) **Non-current assets**		
(a) Fixed assets		
(i) Tangible assets		**19,60,000**
(2) **Current assets**		
(a) Inventories		**10,40,000**
(b) Trade receivables		**10,30,000**
(c) Cash and cash equivalents		**2,05,900**
Total		**42,35,900**

10 item x 1/4 = $2^{1/2}$ M

Notes to Accounts

			Rs.
1	**Share Capital**		
	Equity Share Capital		17,50,000
	9% Preference share capital		8,20,000
			25,70,000
2	**Reserves and Surplus**		
	Profit and Loss A/c		**15,000**
	General Reserve		
	Share Capital of Gini Ltd. (Equity + Preference)	14,00,000	
	Less: Share Capital issued by Rax Ltd.	13,20,000	
	General reserve (resulted due to absorption)	80,000	
	Add: General reserve of Gini Ltd.	1,70,000	
	General reserve of Rax Ltd.	1,80,000	**4,30,000**
	Capital Reserve		**2,45,900**
			6,90,900

4 item x 1/4 = 1 M

Working Note:

1. Arrear dividend to Preference Shareholders
   Preference Share Capital Rs. 500,000 @ 9% will yield dividend of Rs. 45,000/- per year and for 3 years = Rs. 1,35,000/-. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = Rs. 13,500/- **{1/2 M}**
2. **Profit on redemption of own debentures**
   Own Debentures with Nominal Value of Rs. 80,000 sold for Rs. 98 per deb = 80,000 * 98/100 = Rs. 78,400/-.
   Book Value = Rs. 1,92,000/ 2,00,000 X 80,000 = Rs. 76,800/-. Profit on own debentures sold = Rs. 78,400 – Rs. 76,800 = Rs. 1,600 **{1/2 M}**
   Balance Own Debentures = Rs. 1,92,000 – 76,800 = Rs. 1,15,200 which are cancelled.

3. **Purchase Consideration**

Equity share capital	$10{,}000 \times \frac{50}{5} \times Rs.\,10$	= 10,00,000	{1/2 M}
9% Preference share capital	$4{,}000 \times \frac{4}{5} \times 100$	= 3,20,000	
		Rs. 13,20,000	

Answer:

(b) Statement of Affairs of Z Co. Ltd. on the 1st day of April, 2017

					Estimated realizable values	
Assets not specifically pledged :						
Cash in Hand					3,000	5 item x {1/4 M}
Investments					12,000	
Debtors					1,40,000	
Stock					6,000	
Machinery					1,80,000	
					3,41,000	{1/2 M}
Assets specifically pledged:						
	(a)	(b)	(c)	(d)		
	Estimated Realisable Value	Due to Secured Creditors	Deficiency ranking as unsecured	Surplus carried to last column		
	Rs.	Rs.	Rs.	Rs.		
Lease hold property	2,18,000	54,000	--	1,64,000		
	Estimated surplus from assets specifically pledged				1,64,000	{1/2 M}
	Estimated total assets available for preferential creditors, debentures holders secured by floating charge, and unsecured creditors				5,05,000	{1/2 M}
	Summary of Gross assets					
	Gross realisable value of assets specifically pledged			Rs. 2,18,000		
	Other Assets			Rs. 3,41,000		
	Gross Assets			Rs. 5,59,000		
	Rs. Gross Liabilities(to be deducted from surplus or added to deficiency as the case may be)					
	Secured creditors to the extent to which claims are estimated to be covered by assets					
54,000	Specifically pledged					
3,000	Preferential creditors				3,000	{1/2 M}
4 item x {1/4 M}	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors				5,02,000	{1/2 M}
1,50,000	Debentures				1,50,000	{1/2 M}
	Estimated surplus as regard debenture holders				3,52,000	{1/2 M}
60,000	Creditors				60,000	{1/2 M}
{1/4 M} 2,67,000					2,92,000	{1/2 M}
	Estimated surplus as regards creditors [being difference between gross assets (d) and gross liabilities (e)]					
	Issued and called up capital :					
	24,000 equity shares of Rs. 10 each				2,40,000	{1/2 M}
	Estimated surplus as regard members				52,000	{1/2 M}

Answer 3:

(a) The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, **{1/2 M}**

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P&L (Dr.) Cr.	Minority's Share of losses borne by X Ltd.		Cost of Control
				Rs.	Balance	
At the time of acquisition in 2010		**3,24,000** (W.N.)	-			
2010-11	(2,50,000)	(75,000)	(1,75,000)			**2,44,000** (W.N.)
Balance		**2,49,000**				
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			**2,44,000**
Balance		**1,29,000**				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			**2,44,000**
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		**Nil**	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			**2,44,000**
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		**Nil**	(1,20,000)			
2014-15	50,000	15,000	35,000			**2,44,000**
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		**Nil**	50,000			
2015-16	1,00,000	-	1,00,000	(30,000)	12,000	**2,44,000**
Balance		**Nil**				
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	**2,44,000**
		(12,000)	12,000			
Balance		**33,000**	1,17,000			

15 item x 1/2 M = 7.5 M

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2010

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(Rs.)	(Rs.)	(Rs.)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

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

Answer:

(b) (i) Purchase consideration computation

	Rs.	
Cash payment for (3,00,000 x Rs. 2.5)	7,50,000	**{1/4 M}**
Equity Shares (4,50,000 x Rs. 15)	67,50,000	**{1/4 M}**
	$\boxed{75,00,000}$	**{1/4 M}**

In the books of Drishti Ltd.
Realisation Account

	Rs.		Rs.
To Goodwill	5,00,000	By 9% Debentures	5,00,000
To Tangible Fixed Assets	30,00,000	By Creditors	1,00,000
To Stock	10,40,000	By By Manu Ltd.	75,00,000
To Debtors	1,80,000	(Purchase consideration)	
To Cash & Bank A/c	2,55,000		
(2,80,000- 25,000)			
To Cash & Bank A/c	25,000		
(Realization expenses)			
To Profit on realization	31,00,000		
transfer to shareholders			
	81,00,000		81,00,000

10 item x {1/4 M}

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary expenses	50,000	By Equity Share Capital	30,00,000
To Equity Shares in Manu Ltd.	67,50,000	By Export Profit Reserves	8,50,000
To Cash & Bank A/c	7,50,000	By General Reserves	50,000
		By P & L A/c	5,50,000
		By Realization A/c	31,00,000
	75,50,000		75,50,000

8 item x {1/4 M}

9% Debentures Account

	Rs.		Rs.
To Realization A/c	5,00,000	By Balance b/d	5,00,000

2 item x {1/4 M}

Manu Ltd.

	Rs.		Rs.
To Realization A/c	75,00,000	By Share Capital	67,50,000
		By Bank A/c	7,50,000
	75,00,000		75,00,000

3 item x {1/4 M}

(ii) **Journal Entries in the books of Manu Ltd.**

			Rs.	Rs.	
1	Business Purchase A/c	Dr.	75,00,000		**{1/2 M}**
	To Liquidator of Drishti Ltd			75,00,000	
	(Being business of Drishti Ltd. taken over)				
2	Tangible Fixed Assets	Dr.	60,00,000		**{1 M}**
	Stock	Dr.	7,10,000		
	Debtors	Dr.	1,80,000		
	Cash & Bank A/c	Dr.	2,55,000		
	Goodwill A/c (Bal. fig.)	Dr.	10,64,000		
	To Provision for doubtful debts			9,000	
	To Liability for 9 % Debentures			6,00,000	
	To Creditors			1,00,000	
	To Business Purchase account			75,00,000	
	(Being assets and liabilities taken over)				

3	Amalgamation Adjustment A/c To Export Profit Reserves (Being statutory Reserves taken over)	Dr.	8,50,000	 8,50,000	**{1/2 M}**
4	Goodwill To Bank A/c (Liquidation expenses reimbursed)	Dr.	50,000	 50,000	**{1/2 M}**
5	Liquidator of Shristi Ltd. To Equity Share Capital To Securities Premium To Bank A/c (Being purchase consideration discharged)	Dr.	75,00,000	 45,00,000 22,50,000 7,50,000	**{1/2 M}**
6	Liability for 9% Debentures (5,00,000 x 120/100) Discount on issue of debentures To 8% Debentures (6,00,000 x 100/96) (Being liability of debenture holders' discharged)	Dr.	6,00,000 25,000	 6,25,000	**{1/2 M}**

Answer 4:

(a)

A Ltd.

Journal Entries

		Dr. Rs.	Cr. Rs.	
Bank A/c To Share Application A/c (Application money received on firm applications for 140,000 shares each @ Rs. 2.50 per share from D, E & F)	Dr.	10,50,000	 10,50,000	**{1/2 M}**
D E F Share Application A/c To Share Capital A/c (Allotment of shares to underwriters - 1,40,000 to D; 1,40,000 to E and 3,29,000 to F; application and allotment money credited to share capital)	Dr. Dr. Dr. Dr.	2,80,000 2,80,000 11,30,500 10,50,000	 27,40,500	**{1 M}**
Underwriting Commission A/c To D To E To F (Amount of underwriting commission payable to D, E and F @ 5% on the amount of shares underwritten.)	Dr.	22,50,000	 7,50,000 7,50,000 7,50,000	**{1 M}**
Bank A/c To F (Amount received from F on shares allotted less underwriting commission)	Dr.	3,80,500	 3,80,500	**{1/2 M}**
D E To Bank A/c (Amount paid to D & E in final settlement of underwriting commission due less amount payable on shares allotted payable by them.)	Dr. Dr.	4,70,000 4,70,000	 9,40,000	**{1/2 M}**

Working Notes:

(1) **Calculation of Liability of Underwriters**

	D	E	F	
Gross Liability (No. of shares)	15,00,000	15,00,000	15,00,000	
Less: Marked Applications (excluding firm underwriting)	(12,75,000)	(13,50,000)	(10,50,000)	
	2,25,000	1,50,000	4,50,000	
Less: Unmarked Applications (equally)	(72,000)	(72,000)	(72,000)	
	1,53,000	78,000	3,78,000	
Less: Firm Underwriting	(1,40,000)	(1,40,000)	(1,40,000)	
	13,000	(62,000)	2,38,000	
Surplus of E distributed between D & F equally	(31,000)	62,000	(31,000)	
	(18,000)	-	2,07,000	
Surplus of D allocated to F totally	18,000	—	(18,000)	
Net Liability, excluding Firm Underwriting	-	-	1,89,000	{1 M}
Add: Firm underwriting	1,40,000	1,40,000	1,40,000	{1/2 M}
Total liability of underwriters	1,40,000	1,40,000	3,29,000	{1/2 M}

(2) **Calculation of Amounts Payable by Underwriters**

	D	E	F	
Liability (No. of shares)	1,40,000	1,40,000	3,29,000	
Amount payable @ Rs. 4.50 per share	6,30,000	6,30,000	14,80,500	{1/2 M}
Less: Amount paid on Firm Applications of 1,40,000 each @ Rs. 2.50*	(3,50,000)	(3,50,000)	(3,50,000)	
Balance payable	2,80,000	2,80,000	11,30,500	{1/2 M}
Underwriting Commission Receivable	7,50,000	7,50,000	7,50,000	{1/2 M}
Amount Paid	4,70,000	4,70,000	—	{1/2 M}
Amount received by the Co.	—	—	3,80,500	{1/2 M}

Answer:

(b) Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	**30**	**30**
Resources Test (W.N.2)	**24**	**24**
Debt Equity Ratio Test (W.N.3)	**32**	**Nil**
Maximum number of shares that can be bought back [least of the above]	**24**	**Nil**

8 item x 1/4 M = 2 M

Journal Entries for the Buy Back
(applicable only when loan fund is Rs. 3,200 crores)

			Rs. in crores	
		Debit	Credit	
(a)	Equity share buyback account Dr. To Bank account (Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)	720	720	{1/4 M}

(b)	Equity share capital account Premium Payable on buyback account To Equity share buyback account (Being cancellation of shares bought back)	Dr. Dr.	240 480	720	{1/4 M}
	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buyback A/c (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr.	400 80	480	{1/4 M}
(c)	General Reserve / Profit & Loss A/c To Capital redemption reserve accour (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr.	240	240	{1/4 M}

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

{1 M}

2. **Resources Test**

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

{1/2 M} {1/2 M}

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

	Particulars	When loan fund is	
		Rs. 3,200 crores	Rs. 6,000 crores
(a)	Loan funds (Rs.)	**3,200**	**6,000**
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	**1,600**	**3,000**
(c)	Present equity shareholders fund (Rs.)	**2,880**	**2,880**
(d)	Future equity shareholders fund (Rs.)	**2,560 (2,880-320)**	**N.A.**
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	**960**	**Nil**
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	**32 crore shares**	**Nil**
	As per the provisions of the Companies Act, 2013, company	**Qualifies**	**Does not Qualify**

14 item x 1/2 M = 7 M

Answer 5:

(a) Form B – RA (Prescribed by IRDA)

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

Registration No. and Date of registration with the IRDA: ________

Revenue Account for the year ended 31st March, 20X2

	Particulars	Schedule	Current year ended on 31st March, 20X2	
			Rs.	
1.	Premium earned (Net)	1	7,00,000	{1 M}
	Total (A)		7,00,000	
1.	Claims incurred (Net)	2	8,00,000	{1 M}
2.	Commission	3	50,000	{1 M}
3.	Operating Expenses related to insurance business	4	3,00,000	{1 M}
	Total (B)		11,50,000	
	Operating Profit/(Loss) from Fire Insurance Business [C = (A – B)]		(4,50,000)	{1 M}

Schedule 1
Premium earned (Net)

	Rs.	
Premium received from direct business written	15,00,000	
Less: Premium on re-insurance ceded	(1,00,000)	{1 1/2 M}
	14,00,000	
Adjustment for change in reserve for unexpired risk	(7,00,000)	
Net Premium Earned	7,00,000	

Schedule 2
Claims incurred (Net)

	Rs.	
Claims paid – Direct	7,00,000	{1 1/2 M}
Add: Claims outstanding on 31.3.20X2	1,00,000	
Total claims incurred	8,00,000	

Schedule 3
Commission

Commission paid	50,000	{1 M}
Net commission	50,000	

Schedule 4
Operating expenses related to insurance business

	Rs.	{1 M}
Expenses of Management	3,00,000	

Answer:
(b)

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

		Schedule	Year ended 31.03.20X2 Rs.
I.	Income:		
	Interest earned	13	37,95,160
	Other income	14	4,87,800
	Total		42,82,960
II.	Expenditure		
	Interest expended	15	22,95,360
	Operating expenses	16	5,70,340
	Provisions and contingencies (4,50,000+2,00,000+2,00,000)		8,50,000
	Total		37,15,700
III.	Profits/Losses		
	Net profit for the year		5,67,260
	Profit brought forward		Nil
			5,67,260
IV.	Appropriations		
	Transfer to statutory reserve (25% of 5,67,260)		1,41,815
	Proposed dividend		50,000
	Balance carried over to balance sheet		3,75,445
			5,67,260

14 item x {1/2 M}

Profit & Loss Account balance of Rs. 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. **{1/2 M}**

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

{1/2 M} (Schedule 13) **{1/2 M}** (Schedule 14) **{1/2 M}** (Schedule 15) **{1/2 M}** (Schedule 16)

Working Note:

	Rs.
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	(20,000)
	37,95,160

{1/2 M}

*It is assumed that preliminary expenses have been fully written off during the year.

Answer 6:

(a) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	(50,00,000 x 2%)	**1,00,000**
3% on payment made to Preferential creditors	(1,50,000 x 3%)	**4,500**
3% on payment made to Unsecured creditors (Refer W.N)		**78,510**
Total Remuneration payable to Liquidator		**1,83,010**

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

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration **{1 M}**

= Rs. 50,00,000 – Rs. 50,000 – Rs. 20,00,000 – Rs. 1,50,000 – Rs. 1,00,000 – Rs. 4,500 = Rs. 26,95,500 **{1 M}**

Since cash balance is available for unsecured creditors, Liquidator's remuneration on payment to unsecured creditors = Rs. 26,95,500 X 3 /103= Rs. 78,510 (rounded off) **{1 M}**

Answer:

(b) In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation 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. **{5 M}**

Answer:

(c) Revalued net assets of Zed Ltd. as on 31st March, 2017

	Rs. in lakhs	Rs. in lakhs
Fixed Assets [120 X 120%]		**144.0**
Investments [55 X 90%]		**49.5**
Current Assets		**70.0**
Loans and Advances		**15.0**
Total Assets after revaluation		**278.5**
Less: 15% Debentures	90.0	
Current Liabilities	50.0	**(140.0)**
Equity / Net Worth		**138.5**
Exe Ltd.'s share of net assets (70% of 138.5)		**96.95**
Exe Ltd.'s cost of acquisition of shares of Zed Ltd.		
(Rs.70 lakhs – Rs.7 lakhs*)		**63.00**
Capital reserve		**33.95**

10 item x 1/4 M = 2.5 M

* Total Cost of 70 % Equity of Zed Ltd	Rs. 70 lakhs	**{1/2 M}**
Purchase Price of each share	Rs. 20	**{1/2 M}**
Number of shares purchased [70 lakhs /Rs. 20]	3.5 lakhs	**{1/2 M}**
Dividend @ 20 % i.e. Rs. 2 per share	Rs. 7 lakhs	**{1/2 M}**

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company. **{1/2 M}**

Answer:

(d) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include: **{1/2 M}**

(i) Gradual or evolutionary phasing out of a product line or class of service; **{1 M}**

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business; **{1 M}**

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and **{1 M}**

(iv) Closing of a facility to achieve productivity improvements or other cost savings. **{1 M}**

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries. **{1/2 M}**

Answer:

(e) Calculation of effective yield on per annum basis in respect of two mutual fund schemes up to 31.03.2017

		A	B
1	Amount of Investment (Rs.)	2,00,000 **{1/8 M}**	4,00,000 **{1/8 M}**
2	Date of investment	1.12.2016 **{1/8 M}**	1.1.2017 **{1/8 M}**
3	NAV at the date of investment (Rs.)	10.50 **{1/8 M}**	10.00 **{1/8 M}**
4	No. of units on date of investment [1/3]	19,047.62 **{1/4 M}**	40,000 **{1/4 M}**
5	NAV per unit on 31.03.2017 (Rs.)	10.40 **{1/8 M}**	10.10 **{1/8 M}**
6	Total NAV of mutual fund investments on 31.03.2017 [4 x 5]	1,98,095.25 **{1/4 M}**	4,04,000 **{1/4 M}**
7	Increase/ decrease of NAV [6-1]	(1,904.75) **{1/4 M}**	4,000 **{1/4 M}**
8	Dividend received up to 31.3.2017	3,800 **{1/4 M}**	6,000 **{1/4 M}**
9	Total yield [7+8]	1,895.25 **{1/4 M}**	10,000 **{1/4 M}**
10	Yield % [9/1] x 100	0.95% **{1/4 M}**	2.5% **{1/4 M}**
11	Number of days from date of investment	121 **{1/4 M}**	90 **{1/4 M}**
12	Effective yield p.a. [10/11] x 365 days	2.87% **{1/4 M}**	10.14% **{1/4 M}**

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