(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 18.07.2021 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) 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 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	
(iii)	EPS for the year 2016-17 (including effect of right issue) Rs. 45,00,000 / [15,00,000 x 1.08x4/12)+ (20,00,000 x 8/12)]		**}{1 M}** 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) As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a single plan, is:
 (1) disposing of substantially in its entirety,
 (2) disposing of piecemeal, or
 (3) terminating through abandonment; and **{1 M}**

(ii) that represents a separate major line of business or geographical area of operations; and **}{1/2 M}**

(iii) that can be distinguished operationally and for financial reporting purposes. **}{1/2 M}**

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business; **{2 M}**

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. **{1 M}**

Answer:

(d) Provision:

As per AS-7 'Construction Contracts' when a contract covers a number of assets, the construction of each asset should be treated as a separate contract when:

1. separate proposal have been submitted for each asset;
2. each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
3. the costs and revenues of each asset can be identified. **{2 M}**

Analysis:

In the given case, GTI Ltd. negotiates with Bharat Oil Corporation Ltd. Separate proposal is submitted for each construction, though a single agreement is entered between the two. Also values for each contract is defined separately such as Rs. 102 lakhs, Rs. 150 lakhs and Rs. 130 Lakhs for Region X, Region Y and Region Z respectively. **{1 M}**

Conclusion:

Thus, GTI Ltd. is required to treat construction of each unit as a separate construction contract. Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS-7. **{2 M}**

Answer 2:

(a) (i) Purchase consideration computation

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

In the books of Srishti 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 Anu 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 Anu 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}

Anu Ltd.

	Rs.		Rs.
To Realization A/c	**75,00,000**	By Equity Share in Anu. Ltd.	**67,50,000**
		By Cash & 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 Anu Ltd.

			Rs.	Rs.
1	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd			75,00,000
	(Being business of Srishti Ltd. taken over)			
2	Tangible Fixed Assets	Dr.	60,00,000	
	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 Reserve A/c	Dr.	8,50,000	
	To Export Profit Reserves			8,50,000
	(Being statutory Reserves taken over)			

{1 M} (entry 1) **{2 M}** (entry 2) **{1 M}** (entry 3)

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

Answer:

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	25,00,000 x 2%	**50,000**
3% on payment made to Preferential creditors	75,000 x 3%	**2,250**
3% on payment madeto Unsecured creditors (Refer W.N)		**39,255**
Total Remuneration payable to Liquidator		**91,505**

{4 item x 1 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
= Rs. 25,00,000 – Rs. 25,000 – Rs. 10,00,000 – Rs. 75,000 – Rs. 50,000 – Rs. 2,250 = Rs. 13,47,750. {1/2 M}

Liquidator's remuneration on payment to unsecured creditors = 3/103 x Rs. 13,47,750= Rs. 39,255 {1/2 M}

Answer 3 :

(i) Adjustment for raising & writing off of goodwill :

	Raised in old profit sharing ratio				**Written off in new ratio**		**Difference**	
	S & Co.	**T & Co.**	**Total**					
	3:1	**2:1**	**Rs.**		**3:2:1**		**Rs.**	
B	45,000	–	45,000	Cr.	55,000	Dr.	10,000	Dr.
S	15,000	33,333	48,333	Cr.	36,666	Dr.	11,667	Cr.
T	–	16,667	16,667	Cr.	18,334	Dr.	1,667	Dr.
	60,000	50,000	1,10,000		1,10,000			
	1 M	1 M	1 M		1 M		1 M	

5 M

Books of BST & Co.
Journal Entries

			Dr.	**Cr.**
20X1			**Rs.**	**Rs.**
Oct. 31	Cash Account	Dr.	10,000	
	Bank Account	Dr.	15,000	

	T & Co.	Dr.	50,000		
	Sundry Debtors	Dr.	80,000		
	Stock Account	Dr.	60,000		
	Furniture Account	Dr.	10,000		
	Machinery Account	Dr.	90,000		
	Building Account	Dr.	50,000		
	To Provision for Doubtful debts			4,000	$1\frac{1}{2}$ **M**
	To X & Co.			40,000	
	To Sundry Creditors			60,000	
	To B's Capital Account			1,65,750	
	To S's capital Account			95,250	
	(Sundry assets and liabilities of M/s S & Co. taken over at the values stated as per agreement dated.)				
	Cash Account	Dr.	5,000		
	Bank Account	Dr.	20,000		
	X & Co. Account	Dr.	30,000		
	Sundry Debtors A/c	Dr.	1,00,000		
	Stock Account	Dr.	70,000		
	Furniture Account	Dr.	3,000		
	Vehicles Account	Dr	1,00,000		
	To Provision for Doubtful Debts			5,000	$1\frac{1}{2}$ **M**
	To S & Co.			50,000	
	To Sundry Creditors			58,000	
	To S's Capital Account			1,43,333	
	To T's Capital Account			71,667	
	(Sundry assets and liabilities of M/s T & Co. taken over at the values stated as per agreement dated...)				
	B's Capital Account	Dr.	10,000		
	T's Capital Account	Dr.	1,667		
	To S's Capital Account			11,667	$1\frac{1}{2}$ **M**
	(Adjustment in capital accounts consequent on raising goodwill of S & Co. for Rs. 60,000, T & Co. for Rs. 50,000 and writing off the same in the new ratio between B,S,T as per agreement)				
	S & Co.	Dr.	50,000		
	To T Co.			50,000	$1\frac{1}{2}$ **M**
	(Mutual indebtedness of S & Co. and T & Co., cancelled on taking over of the two firms)				
	B's Current Account	Dr.	54,250		
	To B's Capital Account			54,250	$1\frac{1}{2}$ **M**
	(Amount credited to B's Capital to bring capital in profit-sharing ratio)				
	S's Capital Account	Dr.	1,10,250		
	To S's Current Account			1,10,250	
	(Excess amount in S's Capital Account transferred to S's current account to reduce the balance in capital accounts in accordance with the profit sharing ratio)				$1\frac{1}{2}$ **M**

Working Notes:

(i) Balance of Capital Accounts on transfer of business to M/s BST & Co.-

(a) S & Co.		**B's Capital**	**S's Capital**
	Rs.	Rs.	Rs.
As per Balance Sheet		1,20,000	80,000
Credit for Reserve		18,750	6,250
Profit on Revaluation	40,000		
Less : Provision for doubtful debts	(4,000)	27,000	9,000
		1,65,750	95,250
(b) T & Co.		**S's Capital**	**T's Capital**
	Rs.	Rs.	Rs.
As per Balance Sheet		1,00,000	50,000
Credit for Reserve		33,333	16,667
Profit on Revaluation	20,000		
Less : Provision for doubtful debts	(5,000)	10,000	5,000
		1,43,333	71,667

2 M

2 M

(ii) Capital in the new firm-

	B (Rs.)		**S (Rs.)**		**T (Rs.)**
Balance as taken over	1,65,750		95,250		
	–		1,43,333		71,667
	1,65,750		2,38,583		71,667
Adjustment for Goodwill	–10,000		+11,667		–1,667
	1,55,750		2,50,250		70,000
Total capital, Rs. 4,20,000* in the new					
ratio of 3:2:1, taking T's Capital as the basis	2,10,000		1,40,000		70,000
Transfer to Current Account	54,250	(Dr.)	1,10,250	(Cr.)	—

2 M

*T's Capital is Rs. 70,000 and it is 1/6 of total. The total therefore is Rs. 4,20,000.

Answer 4:

(a)

ZED Bank Ltd

Profit and Loss Account for the year ended 31st March, 2013

			(Rs. in '000)
	Particulars	**Schedule No.**	**Year ended on 31st March,2013**
I.	Income		
	Interest earned (W.N. 1)	13	**8,830**
	Other income	14	**220**
	Total		**9,050**
II.	Expenditure		
	Interest expended	15	**2,720**
	Operating expenses	16	**2,830**
	Provisions and contingencies (W.N. 4)		**2,513.95**
	Total		**8,063.95**
III.	Profit/Loss		
	Net profit/(loss) for the year		**986.05**
	Profit/(loss) brought forward		**Nil**
	Total		**986.05**
IV.	Appropriations		
	Transfer to statutory reserve @ 25%		**246.51**
	Balance carried to balance sheet		**739.54**
	Total		986.05

12 items x ½ M

Working Notes:

(1) Schedule 13 – Interest Earned

			(Rs. '000s)
(i)	Interest and discount	8,860	
	Less: Rebate on bills discounted not provided	(30)	
	Interest accrued on investments	(10)	8,820
(ii)	Interest accrued on investments		10
			8,830

{1 M}

Note: Interest accrued on investments to be shown separately under Interest Earned.

(2) Calculation of Provisions and Contingencies

Assets	Amount	% of Provision	Provision
	(Rs. in '000)		(Rs. in '000)
Standard assets	4,000	0.40	16
Sub-standard assets*	2,240	15	336
Doubtful assets (unsecured)	390	100	390
Doubtful assets – covered by security			
Less than 1 year	100	25	25
More than 1 year but less than 3 years	600	40	240
More than 3 years	600	100	600
Loss assets	376	100	376
Total provision	8,306		1,983

{2 M}

*Note: It is assumed that sub-standard assets are fully secured.

(3) Calculation of provision on tax = 35% (Total income – Total expenditure)
= 35% of Rs. [(9,050 – (2,720 + 2,830 + 1,983)]
= 35% of Rs. 1,517
= Rs. 530.95 {1/2 M}

(4) Total provisions and contingencies = Rs. 1,983 + Rs. 530.95 = Rs. 2,513.95. {1/2 M}

Answer:

(b) **(Rs. in lakhs)**

Date	Particulars		Debit	Credit
20X1				
1st April	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
	Equity shares buy-back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of Rs. 10 each bought back @ Rs. 30 per share)			

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

	Equity share capital A/c Dr.	30.00		{1/2 M}
	Securities premium A/c Dr.	60.00		
	To Equity Shares buy-back A/c		90.00	
	(Being cancellation of shares bought back)			
	Revenue reserve A/c Dr.	50.00		{1/2 M}
	To Capital redemption reserve A/c		50.00	
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
	10% Debentures A/c Dr.	2.20		{1/2 M}
	To Investment (own debentures) A/c		2.00	
	To Profit on cancellation of own debentures A/c		0.20	
	(Being cancellation of own debentures costing Rs. 2 lakhs, face value being Rs. 2.20 lakhs and the balance being profit on cancellation of debentures)			
	Bank A/c Dr.	10.00		{1/2 M}
	Employees stock option outstanding (Current liabilities) A/c Dr.	5.00		
	To Equity share capital A/c		5.00	
	To Securities premium A/c		10.00	
	(Being the allotment to employees, of 50,000 shares of Rs. 10 each at a premium of 20 per share in exercise of stock options by employees)			
	Securities premium A/c Dr.	2.00		{1/2 M}
	To Premium on redemption of preference shares A/c		2.00	
	(Being premium on redemption of preference shares adjusted through securities premium)			

Balance Sheet of Extra Ltd. as at 01.04.20X1

(in lakhs Rs.)

		Particulars		Notes	Rs.	
		Equity and Liabilities				
1		**Shareholders' funds**				
	A	Share capital		1	75.00	{1/2 M}
	B	Reserves and Surplus		2	66.20	{1/2 M}
2		**Non-current liabilities**				
		Long term borrowings		3	1.80	{1/2 M}
3		**Current liabilities**				
	A	Other Current Liabilities		4	65.00	{1/2 M}
			Total		208	
		Assets				
1		**Non-current assets**				
	A	Property, plant and Equipment			50.00	{1/2 M}
	B	Non-current Investments		5	118.00	{1/2 M}
2		**Current assets**				
	A	Cash and Cash equivalents		6	40.00	{1/2 M}
			Total		208	

Notes to accounts

No.	**Particulars**		**Rs.**	
1	**Share Capital**			
	Equity shares of Rs. 10 each fully paid		100	
	Less: Cancellation of bought back shares		(30)	
	Add: Shares issued against ESOP		5	
	Total		75	{1/4 M}

2	**Reserves and Surplus**			
	Capital Reserve			
	Opening balance	8.00		
	Add: Profit on cancellation of debentures	0.20	8.20	
	Revenue reserves			
	Opening balance	50.00		
	Less: Creation of Capital Redemption Reserve	(50.00)	-	
	Securities Premium			
	Opening balance	60.00		
	Less: Adjustment for cancellation of equity shares	(60.00)		
	Less: Adjustment for premium on redemption of preference shares	(2.00)		
	Add: Shares issued against ESOP at premium	10.00	8.00	
	Capital Redemption Reserve		50.00	
	Total		66.20	}{1 1/4 M}
3	**Long term borrowings**			
	10% Debentures		4.00	
	Less: Cancellation of own debentures		(2.20)	
	Total		1.80	}{1/4 M}
4.	**Other Current liabilities**			
	Opening balance		70.00	
	Less: Adjustment for ESOP outstanding		(5.00)	
	Total		65.00	}{1/4 M}
5.	**Non-current investments**			
	Opening balance		120.00	
	Less: Investment in own debentures		(2.00)	
	Total		118.00	}{1/4 M}
6.	**Cash and Cash Equivalents**			
	Opening balance		142.00	
	Less: Payment to preference shareholders		(22.00)	
	Less: Payment to equity shareholders		(90.00)	
	Add: Share price received against ESOP		10.00	
	Total		40.00	}{1/4 M}

Answer 5:

(a) (1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c

	Minority % Shares Owned [E]	**Minority interest as at the date of acquisition [E] x [A + B] Rs.**	**Minority interest as at the date of consolidation [E] X [C + D] Rs.**
Case 1 [100-90]	10 %	**15,000**	**17,000**
Case 2 [100-85]	15 %	**19,500**	**18,000**
Case 3 [100-80]	20 %	**14,000**	**14,000**
Case 4 [100-100]	NIL	**Nil**	**Nil**

{8 Items x 1/2 M = 4 M}

A = Share capital on 1.1.20X1

B = Profit & loss account balance on 1.1.20X1

C = Share capital on 31.12.20X1

D = Profit & loss account balance on 31.12.20X1

(2) Calculation of Goodwill or Capital Reserve

	Share holding % [F]	Cost [G]	Total Equity [A] + [B] = [H]	Parent's Portion of equity [F] x [H]	Goodwill Rs. [G] – [H]	Capital Reserve Rs. [H] – [G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	**5,000**	–
Case 2	85 %	1,04,000	1,30,000	1,10,500	–	**6,500**
Case 3	80 %	56,000	70,000	56,000	**Nil**	**Nil**
Case 4	100 %	1,00,000	90,000	90,000	**10,000**	–

{2 M}

(3) The balance in the Profit & Loss Account on the date of acquisition (1.1.20 X1) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.
On 31.12.20X1 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [K]	P & L as on 1.1.20X1 [L]	P & L as on consolidation date [M]	P & L post acquisition [N] = [M]-[L]	Amount to be added/ (deducted) from holding's P & L [O] = [K] x [N]
1	90 %	50,000	70,000	**20,000**	**18,000**
2	85 %	30,000	20,000	**(10,000)**	**(8,500)**
3	80 %	20,000	20,000	**NIL**	**NIL**
4	100 %	40,000	55,000	**15,000**	**15,000**

{8 Items x 1/2 M = 4 M}

Answer:

(b) **In the books of Rebuilt Ltd.**

Journal Entries

	Particulars		Debit (Rs.)	Credit (Rs.)
1.	Equity share capital A/c (Rs. 50)	Dr.	7,50,000	
	To Equity share capital A/c (Rs. 2.50)			37,500
	To Capital reduction A/c			7,12,500
	(Being equity capital reduced to nominal value of Rs. 2.50 each)			
2.	Bank A/c	Dr.	1,12,500	
	To Equity share capital			1,12,500
	(Being 3 right shares against each share was issued and subscribed)			
3.	7% Preference share capital A/c (Rs. 50)	Dr.	6,00,000	
	Capital reduction A/c	Dr.	60,000	
	To 5% Preference share capital (Rs. 10)			4,80,000
	To equity share capital (Rs. 50)			1,80,000
	(Being 7% preference shares of Rs. 50 each converted to 5% preference shares of Rs. 10 each and also given to them 6 equity shares for every share held)			
4.	Loan A/c	Dr.	1,50,000	
	To 5% Preference share capital A/c			1,20,000
	To Equity share capital A/c			30,000
	(Being loan to the extent of Rs. 1,50,000 converted into share capital)			
5.	Bank A/c	Dr.	1,00,000	
	To Equity share application money A/c			1,00,000
	(Being shares subscribed by the directors)			

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

6.	Equity share application money A/c	Dr.	1,00,000		{1 M}
	To Equity share capital A/c			1,00,000	
	(Being application money transferred to capital A/c)				
7.	Loan A/c	Dr.	2,00,000		{1 M}
	To Bank A/c			2,00,000	
	(Being loan repaid)				
8.	Capital reduction A/c	Dr.	6,52,500		{2 M}
	To Profit and loss A/c			4,51,000	
	To Plant A/c			35,000	
	To Trademarks and Goodwill A/c (Bal.fig.)			1,66,500	
	(Being losses and assets written off to the extent required)				

Answer 6: (Answer any four from the following)-

(a) Calculation of ESOP cost to be amortized

	2015-2016	2016-2017
Fair value of options per share	Rs. 18 **{1/4 M}**	Rs. 18 **{1/4 M}**
No. of options expected to vest under the scheme	93,000 (930 x 100) **{3/4 M}**	88,000 (880 x 100) **{3/4 M}**
Fair value of options	Rs. 16,74,000 **{3/4 M}**	Rs. 15,84,000 **{3/4 M}**
Value of options recognized as expenses	(Rs. 16,74,000 / 2) 8,37,000 **{3/4 M}**	(Rs.15,84,000 – Rs. 8,37,000) 7,47,000 **{3/4 M}**

Answer:

(b) 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:

(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) On the basis of the information given, in respect of hire purchase and leased assets, additional provision shall be made as under:

		(Rs. in crore)
(a) Where hire charges are overdue upto 12 months	Nil	**Nil**
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x (675+1,050)	**172.50**
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 225	**90**
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 21,200	**14,840**
	Total	**15,102.50**

{5 item x 1 M}

Answer:

(e) 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}**

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