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

DATE: 11.09.2022 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) Statement of Profit and Loss for the year ended 31st March, 2019 (Extract)

		Rs.
Profit before depreciation and taxes		6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)		(3,10,000)
Profit before taxes (A)		3,30,000
Less: Tax expense (B)		
Current tax (W.N.1) (3,30,000 x 40%)	1,32,000	
Deferred tax (W.N.2)	NIL	(1,32,000)
Profit after tax (A-B)		**1,98,000**

}{2 M}

Working Notes:

1. Computation of taxable income

	Amount (Rs.)
Profit before depreciation and tax	6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)	(3,10,000)
Taxable income	3,30,000
Tax on taxable income @ 40%	**1,32,000**

}{1 M}

2. Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	Transactions	Analysis	Nature of difference	Effect	Amount (Rs.)
(i)	Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	(2,80,000 - 1,90,000) x 40% **= (36,000)** }{1 M}
(ii)	Depreciation on new machinery	Due to allowance of full amount as expenditure under IT Act, tax payable in the earlier years is less.	Timing difference	Creation of DTL	(1,20,000 – 30,000) x 40% **= 36,000** }{1 M}
	Net impact				NIL

Answer:

(b) As per AS 26 'Intangible Assets'

(i) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020

Rs. 35 lakhs is recognized as an expense because the recognition criteria were not met until 1st January 2020. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet. {1 M}

(ii) Carrying value of intangible asset as on 31.03.2020

At the end of financial year, on 31st March 2020, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of **Rs. 32** (67-35) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January 2020). {1 M}

(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2021

	(Rs. in lacs)
Carrying Amount as on 31.03.2020	32
Expenditure during 2020 – 2021	105
Book Value	137
Recoverable Amount	(89)
Impairment loss	**48**

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

Rs. 48 lakhs to be charged to Profit and loss account for the year ending 31.03.2021.

(iv) Carrying value of intangible asset as on 31.03.2021

	(Rs. in lacs)
Book Value	137
Less: Impairment loss	(48)
Carrying amount as on 31.03.2021	**89**

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

Answer:

(c) Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

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

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

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

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

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started. {1 M}

Answer:

(d)

(i)	**Loss for the year ended, 31st March, 2021**	**(Rs. in lakhs)**
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250

	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	**4,250**

{1 M}

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.
Loss for the year ended, 31st March, 2021 amounting Rs. 4,250 will be recognized.

(ii)	**Contract work-in-progress as on 31.3.21**	**(Rs. in lakhs)**
	Contract work-in-progress i.e. cost incurred to date are Rs. 7,500 lakhs:	
	Work certified	6,250
	Work not certified	1,250
		7,500

{1 M}

(iii) **Proportion of total contract value recognised as revenue:**
Cost incurred till 31.3.21 is **46.15%** (7,500/16,250 x 100) of total costs of construction.
Proportion of total contract value recognised as revenue:
46.15% of Rs. 12,000 lakhs = **Rs. 5,538 lakhs**

{2 M}

(iv) **Amount due from/to customers at year end**
(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)
= [(7,500 + Nil – 4,250) – (5,500 + 1,500)] Rs. in lakh= [3,250 – 7,000] Rs. in lakhs
Amount due to customers = **Rs. 3,750 lakhs**

{1 M}

Answer 2:

(a) Liquidator's Final Statement of Account

Receipts		**Rs.**	**Payments**		**Rs.**
Sundry Assets realized:			Liquidator's Remuneration (Working note)		**25,020**
Bank Balance		**2,40,000**	Liquidation Expenses (given)		**3,600**
Plant		**5,90,000**	Secured Creditors:		
			6% Mortgage		
Debtors (1,70,000 X 80%)	1,36,000		Loan	4,60,000	
Less: Realization Expenses	(3,700)	**1,32,300**	Add: Interest (4,60,000 × 6% × 6/12)	13,800	**4,73,800**
Stock (7,20,000× 90%)		**6,48,000**	Unsecured Creditors: Creditors (4,42,000 X 95%)	4,19,900	
			Outstanding Expenses	40,000	**4,59,900**
			Preference Shareholders:		
			Capital	2,50,000	
			Dividend (for 1 year @ 9%)	22,500	**2,72,500**
			Equity Shareholders: (Working note)		
			Fully Paid Shares (4,000×71.935)	2,87,740	
			Partly Paid Shares (4,000×21.935)	87,740	**3,75,480**
		16,10,300			**16,10,300**

{12 Item x 1/2 = 6 M}

Working Note:

Computation of Liquidations' Remuneration and Payment to Equity Shareholders

	Rs.
(a) Total of Receipts (from above account)	**16,10,300**
(b) Total Payments before Final Payment to Members (excluding Preference Capital) and Liquidator's Remuneration (3,600 + 4,73,800 + 4,59,900 + Pref Dividend 22,500)	**(9,59,800)**
(c) Balance left for Liquidator's Remuneration, Pref. Capital and Equity Shareholders	**6,50,500**
(d) Liquidator's Remuneration (6,50,500 × 4/104 = Rs. 25,020 or Rs. 20,000 whichever is higher)	**(25,020)**
(e) Refund of Capital to Preference Shareholders	**(2,50,000)**
(f) Balance money before Notional Call	**3,75,480**
(g) Notional Call on 4,000 Partly Paid Shares at Rs. 50 each (to make all Shares Rs. 100 paid up)	**2,00,000**
(h) Surplus Cash balance after Notional Call	**5,75,480**
(i) Number of Equity Shares deemed fully paid (4,000 + 4,000)	**8,000**
(j) Hence, Refund on every Rs. 100 paid up Share (h ÷ i) = Rs. 5,75,480 ÷ 8,000	**Rs. 71.935**
(k) Loss per Rs. 100 paid up Equity Share = Paid Up Value Rs. 100 – Refund as above Rs. 71.935	**28.065**
(l) Refund per Rs. 50 Partly Paid-Up Equity Share = Paid Up Value Rs. 50 – Loss as above Rs. 28.065	**21.935**

{12 Item x 1/2 = 6 M}

Answer:

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

		Rs. in 000
Paid up Equity Capital		400
Free Reserves		2,000
		2,400
Less: Deferred expenditure		(800)
	A	1,600
Investments		
In shares of subsidiaries and group companies		400
In debentures of subsidiaries and group companies		400
	B	800
10% of A		160
Excess of Investment over 10% of A (800-160)	C	640
Net Owned Fund [(A) - (C)] (1,600-640)		**960**

{4 M}

Answer:

(c)

	Case 1	**Case 2**	**Case 3**	**Case 4**
	Rs.	**Rs.**	**Rs.**	**Rs.**
Sanctioned limit	50,00,000	60,00,000	55,00,000	45,00,000
Drawing power	44,00,000	56,00,000	50,00,000	42,00,000
Amount outstanding continuously from 1.01.2021 to 31.03.2021	40,00,000	48,00,000	56,00,000	30,00,000
Total interest debited	3,20,000	3,84,000	4,48,000	2,40,000
Total credits	1,80,000	-	4,48,000	320,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No	No	The credit in the account is sufficient to cover the interest debited but the	Yes

			amount outstanding is continuously in excess of the sanctioned drawing power for a continuous period of 90 days.	
	{1 M}{ **NPA**	{1 M}{ **NPA**	{1 M}{ **NPA**	**NOT NPA**}{1 M}

Answer 3:

M/s Red, Black and White
Statement of Profit & Loss for the year ended on 31st March, 2022

	Rs.		Rs.
To Dep. Building (1,20,000 x 5%)	**6,000**	By Trading Profit	**80,000**
To Interest on Red's loan (20,000 x 6%)	**1,200**	By Interest on Debentures	**2,400**
To Net Profit to :			
Red's Capital A/c	**45,120**		
Black's Capital A/c	**15,040**		
White's Capital A/c	**15,040**		
	82,400		82,400

{7 Item x 1/4 = 1.75 M}

Balance Sheet of the RBW Pvt. Ltd. as at 1-4-2022

		Notes No.	Rs.
I	Equity and Liabilities		
	Shareholders funds		**2,39,040**
	Non-current liabilities		
	Long term borrowings	1	**21,200**
	Total		2,60,240
	Assets		
	Non-current assets		
	PPE	2	**1,14,000**
	Non-current investments		**40,000**
	Current assets		
	Inventories		**80,000**
	Cash and cash equivalents		**26,240**
	Total		2,60,240

{6 Item x 1/2 = 3 M}

Notes to Accounts

		Rs.
1.	Borrowings	
	Loan from Red	**21,200**
2.	PPE	
	Land and Building (1,20,000 – 6,000)	**1,14,000**

{2 Item x 1/2 = 1 M}

Working Notes:

1. Calculation of goodwill:

Year ended March, 31

	2017	2018	2019	2020	2021
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit 2017 and abnormal loss 2018	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000

Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000	
	(8,000)	32,000	52,000	62,000	72,000	
Less: Debenture Interest being non- operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)	
	(10,400)	29,600	49,600	59,600	69,600	
Total Profit from 2018 to 2021					2,08,400	
Less: Loss for 2017					(10,400)	
Accumulated Profit					1,98,000	
Average Profit					39,600	
Goodwill equal to 2 years' purchase					**79,200**	{1 1/2 M}
Contribution from White, equal to 1/5					**15,840**	{1/2 M}

2. **Partners' Capital accounts**

	Red	Black	White		Red	Black	White
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	**24,000**	**24,000**	**24,000**	By Balance b/d	**80,000**	**1,00,000**	—
To Black			**15,840**				
To Balance c/d	**1,13,120**	**1,14,880**	**11,040**	By General Reserve	**12,000**	**8,000**	—
				By White		**15,840**	—
				By Bank	—	—	**35,840**
				By Profit & Loss A/c	**45,120**	**15,040**	**15,040**
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

{16 Item x 1/4 = 4 M}

3. **Balance Sheet as on 31st March, 2022**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Red's Capital		**1,13,120**	Land & Building	1,20,000	
Black's Capital		**1,14,880**	Less : Dep.	(6,000)	**1,14,000**
White's Capital		**11,040**	Investments		**40,000**
Red's Loan	20,000		Stock-in-trade		**80,000**
Add: Int. due	1,200	**21,200**	Cash (Balancing figure)		**26,240***
		2,60,240			**2,60,240**

{9 Item x 1/4 = 2.25 M}

4. **Conversion into Company**

		Rs.
Capital :	Red	1,13,120
	Black	1,14,880
	White	11,040
Share Capital		**2,39,040**
Distribution of share:	Red (3/5)	**1,43,424**
	Black (1/5)	**47,808**
	White (1/5)	**47,808**

{4 Item x 1/2 = 2 M}

Red should subscribe shares of **Rs. 30,304** (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of **Rs. 36,768** (Rs. 47,808 less 11,040). Black withdraws **Rs. 67,072** (Rs. 47,808 – Rs. 1,14,880). {1 M}

5. **Adjustment for Goodwill amounting Rs. 79,200**

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	**Nil**
Black	31,680	15,840	**15,840 Cr.**
White		15,840	**15,840 Dr.**

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

6. * Also the closing cash balance can be derived as shown below:

	Rs.	Rs.
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		40,000
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	40,000	(60,000)
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		35,840
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

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

Answer 4:

(a) Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars		Note No.	(Rs.)
I.	**Equity and Liabilities**		
(1)	Shareholder's Funds		
(a)	Share Capital	1	**13,40,000**
(b)	Reserves and Surplus	2	**8,27,040**
(2)	**Minority Interest**		**1,15,560**
(3)	**Non- Current Liabilities**		
(a)	12% Debentures		**1,00,000**
(4)	**Current Liabilities**		
(a)	Trade Payables	3	**3,84,800**
(b)	Short term Borrowings (Bank overdraft)		**1,00,000**
Total			**28,67,400**
II.	**Assets**		
(1)	**Non-current assets**		
(a)			
(i)	Property, Plant and Equipment	4	**14,34,600**
(ii)	Intangible assets	5	**28,800**
(2)	**Current assets**		
(a)	Inventory (6,00,000+2,00,000)		**8,00,000**
(b)	Trade Receivables		**5,08,000**
(c)	Cash and Cash equivalents	6	**96,000**
Total			**28,67,400**

{13 Item x 1/2 = 6.5 M}

Notes to Accounts

				Rs.
1.	**Share Capital**			
	Equity share capital			**13,40,000**
	1,34,000 shares of Rs. 10 each fully paid up			

{1/2 M}

2.	**Reserves and Surplus**				
	Reserves		4,80,000		
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)		96,000	5,76,000	
	Profit and Loss Account		2,40,000		
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		11,040	2,51,040	
				8,27,040	}{1/2 M}
3.	**Trade Payables**				
	H Ltd.	2,00,000			
	S Ltd.	1,22,000	3,22,000		
	Bills Payables				
	H Ltd.	60,000			
	S Ltd.	14,800	74,800		
			3,96,800		
	Less: Mutual Owings		(12,000)	**3,84,800**	}{1/2 M}
4.	**Property Plant and Equipment**				
	Machinery				
	H. Ltd.		7,20,000		
	S Ltd.	2,40,000			
	Add: Appreciation	1,20,000			
		3,60,000			
	Less: Depreciation (3,60,000 X 10%)	(36,000)	3,24,000		
	Furniture				
	H. Ltd.		3,60,000		
	S Ltd.	48,000			
	Less: Decrease in value	(12,000)			
		36,000			
	Less: Depreciation (36,000 X 15%)	5,400	30,600	**14,34,600**	}{1/2 M}
5.	**Intangible assets**				
	Goodwill [WN 6]			**28,800**	}{1/2 M}
6.	**Trade receivables**				
	H Ltd.	3,00,000			
	S Ltd.	90,000	3,90,000		
	Bills Receivables				
	H Ltd.	1,00,000			
	S Ltd.	30,000	1,30,000		
			5,20,000		
	Less: Mutual Owings		(12,000)	**5,08,000**	}{1/2 M}

Working Notes:

1.	**Pre-acquisition profits and reserves of S Ltd.**	**Rs.**	
	Reserves	60,000	
	Profit and Loss Account	36,000	
		96,000	}{1/2 M}
	H Ltd.'s = 4/5 (or 80%) × 96,000	76,800	
	Minority Interest= 1/5 (or 20%) × 96,000	19,200	
2.	**Profit on revaluation of assets of S Ltd.**		
	Profit on Machinery Rs. (3,60,000 – 2,40,000)	1,20,000	
	Less: Loss on Furniture Rs.(48,000 –36,000)	(12,000)	
	Net Profit on revaluation	**1,08,000**	}{1 M}
	H Ltd.'s share 4/5 × 1,08,000	86,400	
	Minority Interest 1/5 × 1,08,000	21,600	
3.	**Post-acquisition reserves of S Ltd.**		

	Total reserves	1,80,000
	Less: Pre- acquisition reserves	(60,000)
	Post-acquisition reserves	**1,20,000** {1 M}
	H Ltd.'s share 4/5 × 1,20,000	96,000
	Minority interest 1/5 × 1,20,000	24,000
4.	**Post -acquisition profits of S Ltd.**	
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = Rs. 60,000 – Rs. 36,000)	24,000
	Add: Excess depreciation charged on furniture @ 15%	
	on Rs. 12,000 i.e. (48,000 – 36,000)	1,800
		25,800
	Less: Under depreciation on machinery @ 10%	
	on Rs. 1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
	Adjusted post-acquisition profits	**13,800** {1 M}
	H Ltd.'s share 4/5 × 13,800	11,040
	Minority Interest 1/5 × 13,800	2,760
5.	**Minority Interest**	
	Paid-up value of (24,000 – 19,200) = 4,800 shares	
	held by outsiders i.e. 2,40,000 X 20%	48,000
	Add: 1/5th share of pre-acquisition profits and reserves	19,200
	1/5th share of profit on revaluation	21,600
	1/5th share of post-acquisition reserves	24,000
	1/5th share of post-acquisition profit	2,760
		1,15,560 {1 M}
6.	**Cost of Control or Goodwill**	
	Price paid by H Ltd. for 19,200 shares (A)	3,84,000
	Less: Intrinsic value of the shares	
	Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%	1,92,000
	Add: 4/5th share of pre-acquisition profits and reserves	76,800
	4/5th share of profit on the revaluation	86,400
	Intrinsic value of shares on the date of acquisition (B)	3,55,200
	Cost of control or Goodwill (A – B)	**28,800** {1 M}

Answer:

(b) Journal Entries in the books of Umang Ltd.

			Dr. Rs.	Cr. Rs.	
1.	Bank A/c	Dr.	25,00,000		{1 M}
	Profit and Loss A/c	Dr.	5,00,000		
	To Investment A/c			30,00,000	
	(Being investment sold for the purpose of buy-back of Equity Shares)				
2.	Bank A/c	Dr.	20,00,000		{1/2 M}
	To 12% Pref. Share capital A/c			20,00,000	
	(Being 12% Pref. Shares issued for Rs. 20,00,000)				
3.	Equity share capital A/c	Dr.	50,00,000		{1 M}
	Premium payable on buy-back	Dr.	25,00,000		
	To Equity shares buy-back A/c/ Equity shareholders A/c			75,00,000	
	(Being the amount due on buy-back of equity shares)				
4.	Equity shares buy-back A/c/ Equity shareholders A/c	Dr.	75,00,000		{1 M}
	To Bank A/c			75,00,000	

	(Being payment made for buy-back of equity shares)				
5.	Securities Premium A/c	Dr.	15,00,000		{1 M}
	General Reserve A/c	Dr.	10,00,000		
	To Premium payable on buy-back			25,00,000	
	(Being premium payable on buy-back charged from Securities premium)				
6.	General Reserve A/c	Dr.	30,00,000		{1/2 M}
	To Capital Redemption Reserve A/c			30,00,000	
	(Being creation of capital redemption reserve to the extent of the equity shares bought back after deducting fresh pref. shares issued)				

Answer 5:
(a)

Date	Particulars		Rs.	Rs.	
31.3.2017	Employees compensation expense A/c	Dr.	17,10,000		{3/4 M}
	To ESOS outstanding A/c			17,10,000	
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,200 employees at a discount of Rs. 30 each, amortized on straight line basis over vesting years (Refer W.N.)				
	Profit and Loss A/c	Dr.	17,10,000		{3/4 M}
	To Employees compensation expenses A/c			17,10,000	
	(Being expenses transferred to profit and Loss A/c)				
31.3.2018	Employees compensation expenses A/c	Dr.	4,70,000		{3/4 M}
	To ESOS outstanding A/c			4,70,000	
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)				
	Profit and Loss A/c	Dr.	4,70,000		{3/4 M}
	To Employees compensation expenses A/c			4,70,000	
	(Being expenses transferred to profit and Loss A/c)				
31.3.2019	Employees compensation Expenses A/c	Dr.	9,70,000		{3/4 M}
	To ESOS outstanding A/c			9,70,000	
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)				
	Profit and Loss A/c		9,70,000		{3/4 M}
	To Employees compensation expenses A/c			9,70,000	
	(Being expenses transferred to profit and Loss A/c)				
2019-20	Bank A/c (1,00,000 x Rs. 30)	Dr.	30,00,000		{1.5 M}
	ESOS outstanding A/c [(31,50,000/1,05,000) x 1,00,000]	Dr.	30,00,000		
	To Equity share capital (1,00,000 x Rs. 10)			10,00,000	
	To Securities premium A/c (1,00,000 x Rs. 50)			50,00,000	
	(Being 1,00,000 options exercised at an				

	exercise price of Rs. 30 each)		
31.3.2020	ESOS outstanding A/c Dr.	1,50,000	
	To General Reserve A/c		1,50,000
	(Being ESOS outstanding A/c on lapse of 5,000 options at the end of exercise of option period transferred to General Reserve A/c)		

{1 M}

Working Note:

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

Particulars	Year 1 (31.3.2017)	Year 2 (31.3.2018)	Year 3 (31.3.2019)
Number of options expected to vest	1,14,000 options	1,09,000 options	1,05,000 options
Total compensation expense accrued (60-30)	Rs. 34,20,000	Rs. 32,70,000	Rs. 31,50,000
Compensation expense of the year	34,20,000 x 1/2 = Rs. 17,10,000	32,70,000 x 2/3 = Rs. 21,80,000	Rs. 31,50,000
Compensation expense recognized previously	Nil	Rs. 17,10,000	Rs. 21,80,000
Compensation expenses to be recognized for the year	**Rs. 17,10,000**	**Rs. 4,70,000**	**Rs. 9,70,000**

{3 Item x 1 M= 3M}

Answer:

(b)

				(Rs. in Crores)
(i)	Capital Funds - Tier I :		**Rs.**	**Rs.**
	Equity Share Capital			600
	Statutory Reserve			250
	Capital Reserve (arising out of sale of assets) (87 – 26)			61
	Capital Fund Tier I			**911.0** {2 M}
	Capital Funds - Tier II :			
	Capital Reserve (arising out of revaluation of assets)		26.0	
	Less: Discount to the extent of 55%		(14.3)	
	Capital fund Tier II			11.7
	Total Capital Fund			**922.7** {2 M}

(ii)	**Calculation of Risk Adjusted Assets**			
	Funded Risk Assets			Amount
		Rs.	weight in %	Rs.
	Cash Balance with RBI	20	0	0
	Balances with other Banks	28	20	5.6
	Other Investments	38	100	38
	Loans and Advances:			
	(i) guaranteed by government	18.5	0	0
	(ii) Others	6625	100	6625
	Premises, furniture and fixtures	108	100	108
				6776.60 {2 M}
	Off-Balance Sheet Item	Rs. in Crores	Credit Conversion Factor	
	Guarantees & Other Obligations	600	100	600
	Acceptances, Endorsements and Letters of credit	4,200	100	4,200
				11576.60 {1 M}

Risk Weighted Assets Ratio: $\frac{Capital\ Funds\,(Tier\ I\ \&\ Tier\ II)}{Risk\ \ Adjusted\ Assets + off\ \ Balance\ sheet\ items} \times 100$ **{1 M}**

$= \frac{911 + 11.7}{6776.60 + 4{,}800}$

Capital Adequacy Ratio = 922.7/ 11576.6 = 7.97% **{2 M}**

Answer 6:

(a) (i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.
However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted. **{$2^{1/2}$ M}**

(ii) As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.
The expenditures of training the staff related to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required. **{$2^{1/2}$ M}**

Answer:

(b) **(i)** **Annual lease rent**

Total lease rent
= 130% of Rs. 2,25,000 ´ Output during lease period/ Total output
= 130% of Rs. 2,25,000 x (60,000 +75,000+ 90,000)/(60,000 + 75,000 + 90,000 + 1,20,000 + 1,05,000) **{1 M}**
= 2,92,500 x 2,25,000 units/4,50,000 units = **Rs. 1,46,250**
Annual lease rent = Rs. 1,46,250 / 3 = **Rs. 48,750** **{1 M}**

(ii) **Lease rent Income to be recognized in each operating year**

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 60,000 : 75,000 : 90,000 or 4:5:6
Hence income recognized in years 1, 2 and 3 will be as:
Year 1 Rs. 39,000,
Year 2 Rs. 48,750 and
Year 3 Rs. 58,500. **{3 Item x 1/2 M = 1.5 M}**

(iii) **Depreciation for three years of lease**

Since depreciation in proportion of output is considered appropriate, the depreciable amount Rs. 2,25,000 should be allocated over useful life 5 years in proportion of output,
i.e. in proportion of 60 :75: 90 : 120 : 105 .
Depreciation for year 1 is **Rs. 30,000**, year 2 = **37,500** and year 3 = **45,000.** **{3 Item x 1/2 M = 1.5 M}**

Answer:

(c) P, Q, R and S hold Equity capital is held by in the proportion of 10:40:20:30 and K, L, M and N hold preference share capital in the proportion of 20:10:40:30. As the paid up equity share capital of the company is Rs. 60 Lakhs and Preference share capital is Rs. 30 Lakh (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

P = 2/3X10/100 = 1/15
Q = 2/3X40/100 = 4/15
R = 2/3X20/100 = 2/15
S = 2/3X30/100 = 3/15
K = 1/3X20/100 = 1/15
L = 1/3X10/100 = 1/30
M = 1/3X40/100 = 2/15
N = 1/3X30/100 = 1/10

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

Hence, their relative weights are 1/15 : 4/15 : 2/15 : 3/15: 1/15 : 1/30 : 2/15 : 1/10 or 2:8:4:6:2:1:4:3.

Their respectively voting power is P (6.67%), Q (26.67%), R (13.33%), S (20%), K (6.67%), L (3.33%), M (13.33%) and N (10%).

Answer:

(d)

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		**{1/2 M}**
	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		**{1/2 M}**
	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		**{1 M}**
	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		**{1/2 M}**
	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		**{1/2 M}**
	To Equity share application money A/c			1,00,000	
	(Being shares subscribed by the directors)				
6.	Equity share application money A/c	Dr.	1,00,000		**{1/2 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		{1/2 M}
	To Bank A/c			2,00,000	
	(Being loan repaid)				
8.	Capital reduction A/c	Dr.	6,52,500		{1 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:
(e)

Purchase Consideration:	**Rs.**	
Goodwill	1,40,000	(3 M)
Building	4,20,000	
Machinery	4,48,000	
Inventory	4,41,000	
Trade receivables	2,59,000	
Cash at Bank	56,000	
Less: Liabilities:		
Retirement Gratuity	(56,000)	
Trade payables	(2,24,000)	
Net Assets/ Purchase Consideration	**14,84,000**	(1 M)
To be satisfied as under:		
(i) Preference Shareholders of Beta Ltd.	2,80,000	
Add: 10% Premium	28,000	
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	**3,08,000**	
(ii) Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	**11,76,000**	(1 M)
Total	14,84,000	

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