

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR NOVEMBER, 2023 EXAMINATION**

A. Applicable for November, 2023 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Appendix “Schedule III to the Companies Act” in Module II of September, 2021 Edition. The students are advised to refer the link <https://resource.cdn.icai.org/66657bos53803-mod2-appx.pdf> for the revised content.

- II. The Institute of Chartered Accountants of India revised the Guidance Note on Accounting for Share-based Payments in year 2020. This revised Guidance Note is applicable for the topic “Accounting for Employee Stock Option Plans” for November, 2023 Examination. The provisions of the Guidance Note cover employee stock option plans, the grant date in respect of which falls on or after 1 April 2021. An enterprise is not required to apply this Guidance Note to employee stock option plans to equity instruments that are not fully vested as on 1 April 2021. The chapter on “Employee Stock Option Plans” given in Module II of September, 2021 Edition of the Study Material is revised accordingly. The students are advised to refer link <https://resource.cdn.icai.org/66641bos53803-cp3.pdf> for the revised chapter.

III. Limited Liability Partnership (Amendment) Act, 2021

The Ministry of Law and Justice made amendments to the Limited Liability Partnership Act, 2008 (LLP Act) through the LLP (Amendment) Act, 2021. The relevant amendments (for para 1.8 “Issues related to Accounting in LLPs” of unit 1 of chapter 2 of the study material) can be given as follows:

In section 2 of the LLP Act, 2008, in sub-section (1), the following clause has been inserted:

“Small limited liability partnership” means a limited liability partnership—

- (i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and
- (ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or

Definition of business has been amended. As per the Amendment, definition of “business” includes every trade, profession, service [and occupation except any activity which the Central Government may, by notification, exclude].

Designated Partners

In section 7 of the LLP Act, 2008— (a) in sub-section (1), in the Explanation, for the words “eighty-two days during the immediately preceding one year”, the words “twenty days during the financial year” shall be substituted. Thus now for the purposes of this section, the term resident in India means a person who has stayed in India for a period of not less than one hundred and twenty days during the financial year.

Every designated partner of a limited liability partnership shall obtain a Designated Partners Identification Number (DPIN) from the Central Government and the provisions of sections 153 to 159 (both inclusive) of the Companies Act, 2013 shall apply mutatis mutandis for the said purpose.

Financial Disclosures and Returns

In section 34 of the LLP Act, 2008, under sub-section (4), the following shall be added:

Provided that the Central Government may, by notification in the Official Gazette, exempt any class or classes of limited liability partnerships from the requirements of this sub-section.

For sub-section (5), the following sub-sections shall be substituted, namely:

“(5) Any limited liability partnership which fails to comply with the provisions of sub-section (3), such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for every designated partner.

(6) Any limited liability partnership which fails to comply with the provisions of sub-section (1), sub-section (2) and sub-section (4), such limited liability partnership shall be punishable with fine which shall not be less than twenty-five thousand rupees, but may extend to five lakh rupees and every designated partner of such limited liability partnership shall be punishable with fine which shall not be less than ten thousand rupees, but may extend to one lakh rupees.”

Insertion of Section 34A: Accounting and Auditing Standards

The Central Government may, in consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013,—

- (a) prescribe the standards of accounting; and
- (b) prescribe the standards of auditing,

as recommended by the Institute of Chartered Accountants of India constituted under section 3 of the Chartered Accountants Act, 1949, for a class or classes of limited liability partnerships.]

In section 35 of the LLP Act, 2008, the following shall be inserted:

[(2) If any limited liability partnership fails to file its annual return under sub-section (1) before the expiry of the period specified therein, such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for designated partners.]

IV. SLR holdings in Held to Maturity (HTM category)

(relevant for chapter 8 “Banking Companies” of the study material)

Vide circular RBI/2022-23/21; DOR.MRG.REC.14/21.04.141/2022-23 dated April 8, 2022, it has now been decided by the RBI to further enhance the existing HTM limit of 22 per cent of NDTL to 23 per cent of NDTL and allow banks to include securities acquired between April 1, 2022 and March 31, 2023 under the enhanced limit of 23 per cent. At present, banks have been granted a special dispensation of enhanced Held to Maturity (HTM) limit of 22 per cent of Net Demand and Time Liabilities (NDTL), for Statutory Liquidity Ratio (SLR) eligible securities acquired between September 1, 2020 and March 31, 2022, until March 31, 2023. The enhanced HTM limit of 23 per cent shall be restored to 19.5 percent in a phased manner, beginning from the quarter ending June 30, 2023, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2023 shall be progressively reduced such that the total SLR securities held in the HTM category as a percentage of the NDTL do not exceed:

- (a) 22.00 per cent as on June 30, 2023
- (b) 21.00 per cent as on September 30, 2023
- (c) 20.00 per cent as on December 31, 2023
- (d) 19.50 per cent as on March 31, 2024.

V. Revised Regulatory Framework for Non-Banking finance Companies

Pursuant to the announcement of Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs on 22 October 2021 to be effective from 01 October 2022, RBI has revised different facets of existing NBFC Classification and regulation like Capital Requirements, Governance Standards, Prudential Regulations, etc. based on four layers that are defined based on their size, activity, and perceived riskiness.

These four layers are NBFC – Base Layer (NBFC-BL), then NBFC- Middle Layer (NBFC-ML), NBFC Upper Layer (NBFC-UL) and lastly NBFC – Top Layer (NBFC-TL). The Top layer is ideally expected to be empty and will be filled by RBI based on required need.

Details of NBFCs populating the various layers is mentioned below:

Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹ 1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹ 1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

Categorisation of NBFCs carrying out specific activity

As the regulatory structure envisages scale based as well as activity-based regulation, the following prescriptions shall apply in respect of the NBFCs:

- (a) NBFC-P2P, NBFC-AA, NOFHC and NBFCs without public funds and customer interface will always remain in the Base Layer of the regulatory structure.
- (b) NBFC-D, CIC, IFC and HFC will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be. SPD and IDF-NBFC will always remain in the Middle Layer.
- (c) The remaining NBFCs, viz., Investment and Credit Companies (NBFC-ICC), Micro Finance Institution (NBFC-MFI), NBFC-Factors and Mortgage Guarantee Companies (NBFC-MGC) could lie in any of the layers of the regulatory structure depending on the parameters of the scale based regulatory framework.

- (d) Government owned NBFCs shall be placed in the Base Layer or Middle Layer, as the case may be. They will not be placed in the Upper Layer till further notice.

References to NBFC-ND, NBFC-ND-SI & NBFC-D - From October 01, 2022:

All references to NBFC-ND shall mean NBFC-BL and all references to NBFC-D and NBFC-NDSI shall mean NBFC-ML or NBFC-UL, as the case may be.

NOTE: September, 2021 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for November 2023 Examination which incorporates the above amendments. The students who have editions prior to September, 2021 may refer above amendments.

B. Not applicable for November, 2023 examination

Non-Applicability of Ind AS for November, 2023 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November 2023 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2023 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	3,80,000
P	3,00,000	Stock	2,60,000
Q	3,00,000	Investments	1,00,000
R	-	Debtors	1,40,000
S	1,20,000	Cash	60,000
General reserve	80,000	R's current A/c	80,000
Trade creditors	1,60,000		
Bills payable	<u>60,000</u>		
	<u>10,20,000</u>		<u>10,20,000</u>

Following information is given to you:

- (i) A cheque for ₹ 14,000 received from debtor was not recorded in the books and was misappropriated by R.
- (ii) Investments costing ₹ 16,000 were sold by R at ₹ 22,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- (iii) A creditor agreed to take over investments of the book value of ₹ 18,000 at ₹ 26,000. The rest of the creditors were paid off at a discount of 5%.
- (iv) The other assets realized as follows:
 - Building 110% of book value
 - Stock ₹ 2,40,000
 - Investments The rest of investments were sold at a profit of ₹ 14,000
 - Debtors The rest of the debtors were realized at a discount of 10%
- (v) The bills payable were settled at a discount of ₹ 1,000.
- (vi) The expenses of dissolution amounted to ₹ 16,000
- (vii) It was found out that realization from R's private assets would only be ₹ 14,000.

Prepare Realisation Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer.

Conversion of Partnership firms into a company

2. X, Y and Z are partners sharing profits and losses in the ratio 3 : 2 : 1 after allowing interest on capital @ 9% p.a. Their Balance Sheet as at 31st March, 2023 are as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant & Machinery	2,16,000
X 1,00,000		Fixtures	40,000
Y 60,000		Stock	1,00,000
Z <u>40,000</u>	2,00,000	Sundry Debtors	60,000
Reserve Fund	1,20,000		
Creditors	96,000		
	4,16,000		4,16,000

They applied for conversion of the firm into a Private Limited Company named XYZ Pvt. Ltd. and the certificate was received on 01-04-2023. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capital as far as possible. For that purpose, they decided to insert a clause of issuance of Preference

shares in Memorandum of Association in addition to issuance of Equity shares of ₹ 10 each.

On 01-04-2023, the value of goodwill is to be determined on the basis of 2 years' purchase of the average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31.03.2019	Profit	20,000
Year ended 31.03.2020	Loss	10,000
Year ended 31.03.2021	Profit	36,000
Year ended 31.03.2022	Profit	54,000
Year ended 31.03.2023	Profit	60,000

The loss for the year ended 31-03-2020 was on account of loss by strike to the extent of 10,000. There was an abnormal loss also to the extent of ₹ 10,000 for the year ended 31-03-2020.

It was agreed that rest of the assets are valued on the basis of the Balance Sheet as at 31-03-2023 except Plant & Machinery which is valued at ₹ 2,04,000.

You are required to prepare (a) the Balance Sheet of the Company as at 01-04-2023, (b) Partners' Capital Accounts and (c) Statement showing the final settlement between the partners taking Y's capital as basis.

Accounting for ESOPs

3. Arzoo Limited has its share capital divided into equity shares of ₹ 10 each. On 1-10-2021, it granted 10,000 employees' stock options at ₹ 50 per share, when the market price was ₹ 120 per share. The fair value of options, calculated using an option pricing model, is ₹ 70 per option. The options were to be exercised between 10th December, 2021 and 31st March, 2022. The employees exercised their options for 8,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries (with narration) as would appear in the books of the company upto 31st March, 2022.

Buy Back of Securities

4. The following information from Balance Sheet of Z Ltd. as on 31st March, 2023:

	₹ Lakhs
Share Capital:	
Equity shares of ₹ 10 each Fully Paid Up	16,000
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	5,000

Reserves & Surplus	
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss Account	600
Secured Loans:	
9% Debentures	10,000
Current Liabilities:	
Trade payables	4,600
Sundry Provisions	<u>2,000</u>

Fixed Assets	28,000
Investments	4,700
Cash at Bank	4,600
Other Current Assets	16,500

On 1st April, 2023 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 5,000 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

Equity Shares with Differential Rights

5. Explain how the rights of a shares can be altered.

Amalgamation of Companies

6. The following information from Balance Sheet of X Ltd. as at 31st March, 2023:

	₹
4,000 Equity shares of ₹ 100 each	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000

Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

- (1) Y Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- (2) Y Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 2023. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 2023 after the takeover.

Internal Reconstruction of a Company

7. Following information from Balance Sheet of Ruby Limited as on 31st March, 2023.

	Amount ₹
Authorised and Issued equity share capital:	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from Director	8,80,000
Trade Payables	49,20,000
Outstanding expenses	6,40,000
Bank loan	6,00,000
Patent	8,00,000
Plant & machinery	60,00,000

Building	11,00,000
Trade receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit and Loss account	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

- (1) Equity shares to be converted into 6,00,000 shares of ₹ 10 each.
- (2) Equity shareholders to surrender to the company 80 percent of their holdings.
- (3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
- (4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
- (5) Directors agree to forego the amounts due on account of loan.
- (6) Surrendered shares not otherwise utilized to be cancelled.
- (7) Assets to be reduced as under:

	₹
Patent to	Nil
Plant & Machinery by	8,00,000
Inventory by	6,80,000

- (8) Trade receivables to the extent of ₹ 34,00,000 are considered good.
- (9) Revalued figures for building is accepted at ₹ 14,00,000.
- (10) Bank loan is paid.
- (11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.
- (12) Expenses of reconstruction amounted to ₹ 1,20,000.

(13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.

Liquidation of Company

8. Amounts payable in winding-up of a company are as follows:

- Secured Creditors ₹ 2,50,000
- Workmen's Due ₹ 5,00,000

Show the payments made and treatment of balance in the following two instances :

- (i) If the security realized is ₹ 4,00,000
- (ii) If the security realized is ₹ 2,00,000

NBFCs

9. MS Finance Limited is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 200 lakhs of which instalments are overdue on:

- 400 accounts for last one month (amount overdue ₹ 40 lakhs),
- 24 accounts for two months (amount overdue ₹ 24 lakhs),
- 10 accounts for more than 30 months (amount overdue ₹ 20 lakhs)
- 4 accounts for more than 3 years (amounts overdue ₹ 20 lakhs - already identified as sub-standard assets)
- 1 account of ₹ 10 lakhs which has been identified as non-recoverable by management.
- Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 6 lakhs) for more than 12 months and others are identified as sub-standard assets for a period of less than twelve months.

Classify the assets of the company in line with Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Banking Companies

10. Following information of Raja Bank Limited for the year ended 31st March, 2023 are as under:

Particulars	₹ in '000
Total interest earned and received on term loans	12750.00

Interest earned on term loans classified as NPA	3655.00
Interest received on term loans classified as NPA	1190.00
Total interest earned on cash credits and overdrafts	28315.00
Interest earned but not received on cash credits and overdrafts treated as NPA	4615.00
Interest on Deposits	20600.00
Commission, exchange and brokerage	1005.00
Profit on sale of Investments	9380.00
Profit on revaluation of Investments	1710.00
Income from Investments	10870.00
Payment to and provision for employees	13725.00
Rent, Taxes and Lighting	1925.00
Printing and Stationery	310.00
Director's fees, allowances and expenses	1565.00
Repairs and Maintenance	280.00
Depreciation on Bank's property	495.00
Insurance	215.00

Classification of Assets:

Particulars	₹
Standard [including advances to Commercial Real Estate (CRE) sector ₹ 35,00,000]	23,500
Sub-standard (fully secured)	9,500
Doubtful Assets not covered by security	2,000
Doubtful Assets covered by security for 1 year	200
Loss Assets	1500

You are required to calculate profit before tax and prepare Profit and Loss account of Raja Bank Limited including Schedules for the year ended 31st March, 2023 and calculate provision required to be made on Risk Assets.

Consolidated Financial Statements

11. Chand Ltd. and its subsidiary Sitara Ltd. provided the following information for the year ended 31st March, 2023:

Particulars	Chand Ltd (₹)	Sitara Ltd. (₹)
Equity Share Capital	20,00,000	6,00,000
Finished Goods Inventory as on 01.04.2022	4,20,000	3,01,000
Finished Goods Inventory as on 31.03.2023	8,57,500	3,76,250

Dividend Income	1,68,000	43,750
Other non-operating Income	35,000	10,500
Raw material consumed	13,93,000	4,72,500
Selling and Distribution Expenses	3,32,500	1,57,500
Production Expenses	3,15,000	1,40,000
Loss on sale of investments	26,250	Nil
Sales and other operating income	33,25,000	19,07,500
Wages and Salaries	13,30,000	2,45,000
General and Administrative Expenses	2,80,000	1,22,500
Royalty paid	Nil	5,000
Depreciation	31,500	14,000
Interest expense	17,500	5,250

Other information

- On 1st September 2020 Chand Ltd., acquired 5,000 equity shares of ₹ 100 each fully paid up in Sitara Ltd.
- Sitara Ltd. paid a dividend of 10% for the year ended 31st March 2022. The dividend was correctly accounted for by Chand Ltd.
- Chand Ltd. sold goods of ₹ 1,75,000 to Sitara Ltd. at a profit of 20% on selling price. Inventory of Sitara Ltd. includes goods of ₹ 70,000 received from Chand Ltd.
- Selling and Distribution expenses of Sitara Ltd. include ₹ 21,250 paid to Chand Ltd. as brokerage fees.
- General and Administrative expenses of Chand Ltd. include ₹ 28,000 paid to Sitara Ltd. as consultancy fees.
- Sitara Ltd. used some resources of Chand Ltd., and Sitara Ltd. paid ₹ 5,000 to Chand Ltd. as royalty.

Consultancy fees, Royalty and brokerage received is to be considered as operating revenues.

Prepare Consolidated Statement of Profit and Loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended 31st March, 2023 as per Schedule III to the Companies Act, 2013.

AS 7 “Construction Contracts”

- 12 (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. ₹ 50 Lakh ₹ 60 Lakh and ₹ 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS- 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

- (ii) On 1st December, 2022, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2023, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2023 as per provisions of AS-7?

AS 9 “Revenue Recognition”

- 13 Given below are the following information of B.S. Ltd.

- (i) Goods of ₹ 50,000 were sold on 18-03-2023 but at the request of the buyer these were delivered on 15-04-2023.
- (ii) On 13-01-2023 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2023.
- (iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01-12-2022. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2023 and no approval or disapproval received for the remaining goods till 31-03-2023.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2023 in above cases in the context of AS-9.

AS 17 “Segment Reporting”

- 14 The accountant of Parag Limited has furnished you with the following data related to its Business Divisions: (₹ in Lacs)

Division	A	B	C	D	Total
Segment Revenue	100	300	200	400	1,000
Segment Result	45	-70	80	-10	45
Segment Assets	39	51	48	12	150

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.

AS-18 “Related Party Disclosures”

- 15 Identify the related parties in the following cases as per AS-18

- (i) Maya Ltd. holds 61 % shares of Sheetal Ltd.
 Sheetal Ltd. holds 51% shares of Fair Ltd.
 Care Ltd. holds 49% shares of Fair Ltd.

(Give your answer - Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)

AS 19 “Leases”

- 16 Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹ 11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays ₹ 3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of ₹ 70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only ₹ 25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

AS 20 “Earnings Per Share”

- | | | |
|----|---|----------------------------|
| 17 | Net Profit for FY 2021-22 | 30,00,000 |
| | Net Profit for FY 2022-23 | 50,00,000 |
| | No. of shares outstanding prior to rights issue | 20,00,000 shares |
| | Rights Issue Price | ₹ 20 |
| | Last day to exercise rights | 1 st June, 2022 |
- Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares)
- Fair value of one equity share immediately prior to exercise of rights on 1st June, 2022 was ₹ 26.00.

Compute Basic Earnings Per Share for FY 2016-17, FY 2022-23 and restated EPS for FY 2021-22.

AS 22 “Accounting for Taxes on Income”

- 18 From the following details of Aditya Limited for accounting year ended on 31st March, 2023:

Particulars	₹
Accounting profit	15,00,000
Book profit as per MAT	7,50,000
Profit as per Income tax Act	2,50,000
Tax Rate	20%
MAT Rate	7.5%

Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.

AS 26 “Intangible Assets”

- 19 Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (₹ in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.

AS 29 “Provisions, Contingent Liabilities and Contingent Assets”

20. With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:
- The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.
 - The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

SUGGESTED ANSWERS**1. Realisation Account**

Particulars	₹	Particulars	₹
To Building	3,80,000	By Trade creditors	1,60,000
To Stock	2,60,000	By Bills payable	60,000
To Investment	1,00,000	By Cash	
To Debtors	1,40,000	Building	4,18,000
To Cash-creditors paid (W.N.1)	1,27,300	Stock	2,40,000
To Cash-expenses	16,000	Investments (W.N.2)	80,000

To Cash-bills payable (60,000-1,000)	59,000	Debtors (W.N. 3)	<u>1,13,400</u>	8,51,400
To Partners' Capital A/cs		By R – (Receipt from Debtors unrecorded)		14,000
P 8,366		By R - Receipt from Investments unrecorded		22,000
Q 8,366				
R 5,578				
S <u>2,790</u>	<u>25,100</u>			
	<u>11,07,400</u>			<u>11,07,400</u>

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	60,000	By Realisation-creditors paid	1,27,300
To Realisation – assets realised		By Realisation-bills payable	59,000
Building 4,18,000		By Realisation-expenses	16,000
Stock 2,40,000		By Capital accounts:	
Investments 80,000		P	3,02,264
Debtors <u>1,13,400</u>	8,51,400	Q	3,02,264
To R's capital A/c	<u>14,000</u>	S	<u>1,18,572</u>
	<u>9,25,400</u>		<u>9,25,400</u>

Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To R's current A/c			80,000		By Balance b/d	3,00,000	3,00,000	-	1,20,000
To Realisation A/c-Debtors-misappropriation			14,000		By General reserve	26,666	26,666	17,778	8,890
To Realisation A/c-Investment-misappropriation			22,000		By Realisation profit	8,366	8,366	5,578	2,790
To R's capital A/c (W.N. 4)	32,768	32,768		13,108	By Cash A/c			14,000	
To Cash A/c	3,02,264	3,02,264		1,18,572	By P's capital A/c			32,768	
					By Q's capital A/c			32,768	

				By S's capital A/c			13,108	
<u>3,35,032</u>	<u>3,35,032</u>	<u>1,16,000</u>	<u>1,31,680</u>		<u>3,35,032</u>	<u>3,35,032</u>	<u>1,16,000</u>	<u>1,31,680</u>

Working Notes:**1. Amount paid to creditors in cash**

	₹
Book value	1,60,000
Less: Creditors taking over investments	<u>(26,000)</u>
	1,34,000
Less: Discount @ 5%	<u>(6,700)</u>
	<u>1,27,300</u>

2. Amount received from sale of investments

	₹
Book value	1,00,000
Less: Misappropriated by R	<u>(16,000)</u>
	84,000
Less: Taken over by a creditor	<u>(18,000)</u>
	66,000
Add: Profit on sale of investments	<u>14,000</u>
Cash received from sale of remaining investment	<u>80,000</u>

3. Amount received from debtors

	₹
Book value	1,40,000
Less: Unrecorded receipt	<u>(14,000)</u>
	1,26,000
Less: Discount @ 10%	<u>(12,600)</u>
	<u>1,13,400</u>

4. Deficiency of R

	₹
Balance of capital as on 31 st March, 2023	80,000
Debtors-misappropriation	14,000
Investment-misappropriation	<u>22,000</u>
	<u>1,16,000</u>

Less: Realisation Profit	(5,578)
General reserve	(17,778)
Contribution from private assets	<u>(14,000)</u>
Net deficiency of capital	<u>78,644</u>

This deficiency of ₹ 78,644 in R's capital account will be shared by other partners P, Q and S in their capital ratio of 15 : 15 : 6.

Accordingly,

P's share of deficiency = $[78,644 \times (15/36)] = ₹ 32,768$

Q's share of deficiency = $[78,644 \times (15/36)] = ₹ 32,768$

S's share of deficiency = $[78,644 \times (6/36)] = ₹ 13,108$

2. (a) **Balance Sheet of the XYZ Pvt. Ltd. as on 1-4-2023**

	Note No.	₹
Equity and Liabilities		
<i>Shareholders funds</i>		
Share capital	1	3,80,000
<i>Current liabilities</i>		
Trade Payables		<u>96,000</u>
Total		<u>4,76,000</u>
Assets		
<i>Non-current assets</i>		
Property, Plant and Equipment	2	2,44,000
Intangible assets	3	72,000
<i>Current assets</i>		
Inventories		1,00,000
Trade Receivables		<u>60,000</u>
Total		<u>4,76,000</u>

Notes to Accounts

	₹
1. <i>Share Capital</i>	
Equity share capital 36,000 fully paid shares of ₹ 10 each	3,60,000
Preference share capital (9% Preference Shares)	<u>20,000</u>

(All the shares have been issued for consideration other than cash)	<u>3,80,000</u>
2. Property, Plant and Equipment	
Plant and Machinery	2,04,000
Fixtures	<u>40,000</u>
	<u>2,44,000</u>
3. Intangible assets	
Goodwill	72,000

(b) In the books of Partnership Firm**Partners' Capital Accounts**

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Plant and machinery account	6,000	4,000	2,000	By Balance b/d	1,00,000	60,000	40,000
To Equity shares in XYZ Pvt. Ltd.	1,80,000	1,20,000	60,000	By Reserve fund	60,000	40,000	20,000
To 9% Preference shares in XYZ Pvt. Ltd.	10,000		10,000	By Realization A/c (Profit on sale of business due to goodwill)	36,000	24,000	12,000
	<u>1,96,000</u>	<u>1,24,000</u>	<u>72,000</u>		<u>1,96,000</u>	<u>1,24,000</u>	<u>72,000</u>

(c) Statement showing the final settlement between the Partners taking Y's capital as basis

	X ₹	Y ₹	Z ₹	Total ₹
Value of Equity Shares to be allotted, taking Y's capital as basis				
X's Capital = $1,20,000 \times \frac{3}{2}$	1,80,000			
Z's Capital = $1,20,000 \times \frac{1}{2}$			60,000	
Total Value of Equity Shares allotted to X, Y and Z				3,60,000
9% Preference Shares to be allotted to				

X ₹ (1,90,000-1,80,000)	10,000			
9%Preference Shares to be allotted to Z ₹ (70,000-60,000)			10,000	
Total Value of Preference Shares allotted to X and Z				<u>20,000</u>
Total Purchase Consideration				<u>3,80,000</u>

Taking Y's capital as Basis, both X and Z have ₹ 10,000 each as excess in their capital account balances. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to X and Z for ₹ 10,000 each and the remaining amount of ₹ 3,60,000 in the form of Equity Shares to be divided among X, Y and Z in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing preference dividend.

Working Notes:

1. Calculation of goodwill

	2018-19 ₹	2019-20 ₹	2020-21 ₹	2021-22 ₹	2022-23 ₹
Profits	20,000	(10,000)	36,000	54,000	60,000
Adjustment for abnormal loss in 2019-20 [Loss due to strike and abnormal loss]	—	20,000	—	—	—
	20,000	10,000	36,000	54,000	60,000
Total Profit from 2018-19 to 2022-23					1,80,000
Average Profit (1,80,000 / 5)					36,000
Goodwill equal to 2 years' purchase					72,000

2. Purchase consideration -

Assets:	₹
Goodwill	72,000
Plant & Machinery	2,04,000
Fixtures	40,000
Stock	1,00,000
Sundry Debtors	<u>60,000</u>
	4,76,000

Less: Liabilities:

Creditors	<u>96,000</u>
Purchase Consideration	<u>3,80,000</u>

3. **Journal Entries in the books of Arzoo Ltd.**

			₹	₹
10.12.21	Bank A/c (8,000 x 50)	Dr.	4,00,000	
to 31.3.22	Employee compensation expense A/c (8,000 x 70)	Dr.	5,60,000	
	To Equity share capital A/c (8,000 x 10)			80,000
	To Securities premium A/c (8,000 x 110)			8,80,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.22	Profit and Loss A/c	Dr.	5,60,000	
	To Employee compensation expense A/c (Being transfer of employee compensation expenses to Profit and Loss Account)			5,60,000

4. (i) **Journal Entries in the books of Z Ltd. (₹ in lakhs)**

	Particulars			
1	Bank A/c	Dr.	5,000	
	To Investments A/c			4,700
	To Profit and Loss A/c			300
	(Being investment sold on profit for the purpose of buy-back)			
2	10% Redeemable Preference Share Capital A/c	Dr.	5,000	
	Premium on Redemption of Preference Shares A/c	Dr.	500	
	To Preference Shareholders A/c			5,500
	(Being redemption of preference share capital at premium of 10%)			
3	Profit and Loss A/c	Dr.	500	
	To Premium on Redemption of Preference Shares A/c			500
	(Being premium on redemption of preference shares adjusted through securities premium)			

4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	1,600 1,600	3,200
5	Securities Premium A/c (1,600) To Premium on Buyback A/c (Being premium on buyback provided out of securities premium)	Dr.	1,600	1,600
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		5,500 3,200	8,700
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		6,600	6,600

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

(₹ Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	14,400
	(b) Reserves and Surplus	2	14,400
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	10,000
(3)	Current Liabilities:		
	(a) Trade payables		4,600
	(b) Short Term Provisions		<u>2,000</u>
	Total		<u>45,400</u>
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		28,000

	Current Assets:		
	(a) Cash and Cash equivalents (W N)		900
	(b) Other Current Assets		<u>16,500</u>
			<u>45,400</u>

Notes to Accounts

		₹ in Lakhs		
1.	Share Capital			
	1,440 lakh Equity Shares of ₹ 10 each Fully Paid up (160 lakh Equity Shares bought back)			14,400
2.	Reserves and Surplus			
	General Reserve	12,000		
	Less: Transfer to CRR	<u>(6,600)</u>	5,400	
	Capital Redemption Reserve	2,000		
	Add: Transfer due to buy-back of shares from Gen. res.	<u>6,600</u>	8,600	
	Securities premium	1,600		
	Less: Adjustment for premium paid on buy back	(1,600)		
	Profit & Loss A/c	600		
	Add: Profit on sale of investment	300		
	Less: Adjustment for premium paid on redemption of preference shares	<u>(500)</u>	<u>400</u>	14,400
3.	Long-term borrowings			
	Secured			
	9 % Debentures			10,000

Working Note:**Bank Account**

	Amount		Amount
	(₹ Lakhs)		(₹ Lakhs)
To balance b/d	4,600	By Preference Shareholders A/c	5,500
To Investment A/c (sale Proceeds)	5,000	By Equity buy back A/c	3,200

		By Balance c/d (Balancing figure)	
	<u>9,600</u>		<u>900</u>
			<u>9,600</u>

5. The rights of a shares of a particular class, once issued, can be varied or altered under section 48 if
- If provision with respect to such variation is contained in the memorandum or articles of the company; or
 - In the absence of any such provision in the memorandum or articles, if such variation is not prohibited by the terms of issue of the shares of that class.

However, it would require consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class.

Hence, if equity shareholders Series A require a change in their right, of a particular nature, either a special resolution of a specially convened meeting of this particular class of shareholders will suffice, or otherwise more than 75% shareholders can give their consent in writing.

However, it must be understood that a company having equity shares with voting rights cannot convert them into equity shares with differential voting rights, or vice-versa. However, the variation in their rights should not affect the rights of any other class, say Equity shares 'B' class or Preference shares.

In such situation, if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of this section shall apply to such variation.

6. **Books of X Limited**
Realisation Account

	₹		₹
To Building	1,70,000	By Trade payables	1,60,000
To Machinery	3,20,000	By Y Ltd.	6,05,000
To Inventory	1,10,000	By Equity Shareholders (Loss)	38,000
To Trade receivables	1,30,000		
To Patent	65,000		
To Bank (Exp.)	<u>8,000</u>		
	<u>8,03,000</u>		<u>8,03,000</u>

Bank Account			
To Balance b/d	68,000	By Realisation (Exp.)	8,000
To Y Ltd.	3,00,000	By 10% Debentures	2,00,000
		By Loan	80,000
		By Equity shareholders	<u>80,000</u>
	<u>3,68,000</u>		<u>3,68,000</u>
10% Debentures Account			
To Bank	<u>2,00,000</u>	By Balance b/d	<u>2,00,000</u>
	<u>2,00,000</u>		<u>2,00,000</u>
Loan Account			
To Bank	<u>80,000</u>	By Balance b/d	<u>80,000</u>
	<u>80,000</u>		<u>80,000</u>
Share Issue Expenses Account			
To Balance b/d	<u>17,000</u>	By Equity shareholders	<u>17,000</u>
	<u>17,000</u>		<u>17,000</u>
General Reserve Account			
To Equity shareholders	<u>40,000</u>	By Balance b/d	<u>40,000</u>
	<u>40,000</u>		<u>40,000</u>
Y Ltd. Account			
To Realisation A/c	6,05,000	By Bank	3,00,000
		By Equity share in Y Ltd. (2,440 shares at ₹ 125 each)	<u>3,05,000</u>
	<u>6,05,000</u>		<u>6,05,000</u>
Equity Shares in Y Ltd. Account			
To Y Ltd.	<u>3,05,000</u>	By Equity shareholders	<u>3,05,000</u>
	<u>3,05,000</u>		<u>3,05,000</u>
Equity Share Holders Account			
To Realisation	38,000	By Equity share capital	4,00,000
To Share issue Expenses	17,000	By General reserve	40,000
To Equity shares in B Ltd.	3,05,000		

To Bank	<u>80,000</u>	<u>4,40,000</u>
		<u>4,40,000</u>

Y Ltd

Balance Sheet as on 1st April, 2023 (An extract)*

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	2,44,000
b	Reserves and Surplus	2	53,500
2	Current liabilities		
a	Trade Payables	3	1,40,000
b	Bank overdraft		3,00,000
	Total		7,37,500
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	4	4,41,000
	Intangible assets	5	1,08,000
2	Current assets		
a	Inventories	6	91,500
b	Trade receivables	7	97,000
	Total		7,37,500

Notes to Accounts

		₹
1	Share Capital	
	Equity share capital	
	2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)	2,44,000
	Total	2,44,000

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

2	Reserves and Surplus (an extract)		
	Securities Premium		61,000
	Profit and loss account	
	Less: Unrealised profit	<u>(7,500)</u>	<u>(7,500)</u>
	Total		<u>53,500</u>
3	Trade payables		
	Opening balance	1,60,000	
	Less: Inter-company transaction cancelled upon amalgamation	<u>(20,000)</u>	1,40,000
4	Property, Plant and Equipments		
	Buildings		1,53,000
	Machinery		2,88,000
	Total		<u>4,41,000</u>
5	Intangible assets		
	Goodwill		1,08,000
6	Inventories		
	Opening balance	99,000	
	Less: Cancellation of profit upon amalgamation	<u>(7,500)</u>	91,500
7	Trade receivables		
	Opening balance	1,17,000	
	Less: Intercompany transaction cancelled upon amalgamation	<u>(20,000)</u>	97,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	62,200
Less: 8% of ₹ 4,40,000	<u>(35,200)</u>
Super profit	<u>27,000</u>
Value of Goodwill = 27,000 x 4	<u>1,08,000</u>
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	1,08,000
Building	1,53,000
Machinery	2,88,000
Inventory	99,000

Trade receivables (1,30,000-13,000)	<u>1,17,000</u>
Total Assets	7,65,000
Less: Trade payables	<u>(1,60,000)</u>
Net Assets	<u>6,05,000</u>

Out of this ₹ 3,00,000 is to be paid in cash and remaining i.e., (6,05,000 – 3,00,000) ₹ 3,05,000 in shares of ₹ 125. Thus, the number of shares to be allotted $3,05,000/125 = 2,440$ shares.

3. Unrealised Profit on Inventory	₹
The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be [20,000/80,000 x 50,000]	12,500
As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	<u>(5,000)</u>
Amount of unrealized profit	<u>7,500</u>

7.

Books of Ruby Ltd.

Journal Entries

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital (₹ 100 each) a/c Dr	60,00,000	
To Equity share capital (₹ 10 each) A/c		60,00,000
(Sub division of equity share into ₹ 10 each)		
Equity Share Capital (₹ 10) A/c Dr.	48,00,000	
To Share surrendered A/c		48,00,000
(Surrender of 80% of share holding by equity share holders)		
7% Cumulative preference share capital A/c Dr.	40,00,000	
To 8% cumulative preference share capital A/c		40,00,000
(Conversion of 7% Cumulative Preference share capital into 8% Cumulative Preference share capital. They also forgo their right to arrears of dividends)		

Shares Surrendered A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Surrendered share issued against trade payables under reconstruction scheme)			
Bank loan A/c	Dr.	6,00,000	
Expenses of reconstruction A/c	Dr.	1,20,000	
To Bank A/c			7,20,000
(Bank loan and reconstruction expenses paid)			
Share surrendered A/c	Dr.	38,00,000	
To Capital Reduction A/c			38,00,000
(Cancellation of unissued surrendered shares) (48,00,000-10,00,000)			
Loan from Director A/c	Dr.	8,80,000	
Trade Payables A/c	Dr.	12,30,000	
Building A/c	Dr.	3,00,000	
To Capital reduction A/c			24,10,000
(Amount sacrificed by directors and trade payables and appreciation in value of building)			
Capital reduction A/c	Dr.	62,10,000	
To Patent A/c			8,00,000
To Trade receivables A/c			13,00,000
To Inventory A/c			6,80,000
To Profit and Loss A/c			16,80,000
To Expenses on Reconstruction A/c			1,20,000
To Plant A/c (bal. fig) (8,00,000+8,30,000)			16,30,000
(Various assets and expenses written off)			
Bank A/c	Dr.	8,00,000	
To Share application money A/c			8,00,000
(Application money received on full and final payment)			

Share application money A/c	Dr.	8,00,000	
To Share capital A/c			8,00,000
(Being 80,000 equity shares of ₹ 10 each issued and fully paid up)			

Note: Cancellation of preference dividend need not be journalised. On cancellation, it ceases to be contingent liability and hence no further disclosure required.

Balance Sheet of Ruby Ltd. (and Reduced) as at 31st March, 2023

	Particulars	Note	Amount (₹)
I.	EQUITY AND LIABILITIES		
	1. <u>Shareholders' funds</u>		
	a. Share capital	1	70,00 000
	b. General reserve		12,00 000
	2. <u>Current liabilities</u>		
	a. Trade payables (49,20,000-12,30,000)		36,90,000
	b. Other current liabilities (outstanding expenses)		<u>6,40,000</u>
	Total		<u>125,30,000</u>
II.	ASSETS		
	1. Non-current assets		
	i. Property, Plant and Equipments	2	57,70,000
	ii. Intangible assets	3	-
	2. Current assets		
	a. Inventories (32,60,000- 6,80,000)		25,80,000
	b. Trade receivables (47,00,000 - 13,00,000)		34,00,000
	c. Cash and cash equivalents	4	<u>7,80,000</u>
	Total		125,30,000

Notes to the financial statements

(1) Share capital

	Particulars	Amount (₹)
a.	Authorised	
	• 6,00,000 equity shares of ₹ 10 each	60,00,000
	• 40,000 8% cumulative preference shares of ₹ 100 each	40,00,000

b.	Issued, subscribed and fully paid up	
	<ul style="list-style-type: none"> 3,00,000 equity shares of ₹ 10 each (of the above, 1,00,000 shares were issued as fully paid up for consideration other than cash under the scheme of reconstruction) 	30,00,000
	<ul style="list-style-type: none"> 40,000 8% cumulative preference shares of ₹ 100 each 	40,00,000
	Total	70,00,000

(2) Property, Plant and Equipments

Particulars	₹
Plant (60,00,000-16,30,000)	43,70,000
Building (11,00,000 + 3,00,000)	<u>14,00,000</u>
Total	57,70,000

(3) Intangible assets

Particulars	₹
Patent (8,00,000-8,00,000)	-

(4) Cash and cash equivalents

	Particulars	₹
a.	Balance with bank (4,60,000-6,00,000-1,20,000+8,00,000)	5,40,000
b.	Cash on hand	<u>2,40,000</u>
	Total	7,80,000

8. (i) If the value of the security (realized) is ₹ 4,00,000

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	2,50,000	5,00,000	7,50,000
Less: security realized and paid in pro rata 1:2	1,33,334	2,66,666	4,00,000
Balance treated as overriding pref. creditors	1,16,666	2,33,334	3,50,000
Balance treated as unsecured creditors	-	-	-

(ii) If the value of the security (realized) is ₹ 2,00,000

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	2,50,000	5,00,000	7,50,000
Less: security realized and paid in pro rata 1:2	66,666	1,33,334	2,00,000
Balance treated as overriding pref. creditors	1,33,334	3,66,666	5,00,000
Balance treated as unsecured creditors	50,000	-	50,000

Note: Unsatisfied portion of secured creditors to the extent which could not be paid because of their security being used for workmen's dues, is to be treated as overriding preferential payment and the remaining portion is to be treated as unsecured.

9. Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

	(₹ in lakhs)
Standard Assets:	
Accounts (Balancing figure)	86.00
400 accounts overdue for a period of 1 month	40.00
24 accounts overdue for a period of 2 months	<u>24.00</u>
	150.00
Sub-Standard Assets:	
4 accounts identified as sub-standard asset for a period less than 12 months	14.00
Doubtful Debts:	
6 accounts identified as sub-standard for a period more than 12 months	6.00
4 accounts identified as sub-standard for a period more than 3 years	20.00
Loss Assets	
1 account identified by management as loss asset	<u>10.00</u>
Total overdue	<u>200.00</u>

10.

Raja Bank

Profit and Loss Account
For the year ended 31st March, 2023

Particulars	Schedule	Year ended 31-3-2023 (₹'000')
I Income		
Interest earned	13	44,855.00
Other income	14	12,095.00
		56,950
II Expenditure		
Interest expended	15	20,600.00
Operating expenses	16	18,515.00
Provisions and Contingencies (refer W.N)		5,090
		44,205.00
III Profit/Loss		12,745.00

Schedule 13 - Interest Earned

Particulars	Year ended 31-3-2023 (₹'000')
I Interest/discount on advances/bills	
Interest on term loans [12,750- (3655 – 1,190)]	10,285.00
Interest on cash credits and overdrafts (28315 - 4615)	23,700.00
II Income on investments	10,870.00
	44,855.00

Interest on NPA is recognized on cash basis, hence excess reduced.

Schedule 14 - Other Income

Particulars	Year ended 31-3-2023 (₹'000')
Commission, exchange and brokerage	1005.00
Profit on sale of investments	9380
Profit on revaluation of investments	1710
	12095.00

Schedule 15 - Interest Expended

	<i>Year ended 31-3-2023</i>
I Interest on Deposits	20,600

Schedule 16 - Operating Expenses

	<i>Year Ended 31-3-2023</i>
I Payment and provision for employees Salaries, allowances and bonus	13725.00
II Rent, taxes and lighting	1925.00
III Printing & stationery	310.00
IV Director's fee, allowances and expenses	1565.00
V Depreciation on the Bank's Property	495.00
VI Repairs & maintenance	280.00
VII Insurance	215.00
	18,515.00

Working Note:

Calculation of Provisions amount on risk assets	(₹'000)
Provision for NPA:	
Standard (excluding advances to Commercial Real Estate (CRE) Sector 23,500-3,500)	20,000 × 0.40% 80
Standard - advances to Commercial Real Estate (CRE) Sector	3,500 × 1% 35.0
Sub-standard- fully secured	9500 × 15% 1425.0
Doubtful assets not covered by security	2,000 × 100% 2000
Doubtful covered by security for one year	200 × 25% 50
Loss Assets	1500 × 100% 1500
	5,090

11. Consolidated statement of profit and loss of Chand Ltd. and its subsidiary Sitara Ltd. for the year ended on 31st March, 2023

<i>Particulars</i>	Note No.	₹
Revenue from operations	1	50,03,250
Other Income	2	<u>1,81,000</u>
Total revenue (I)		<u>51,84,250</u>
Expenses:		
Cost of material purchased/consumed	3	21,45,500
Changes (Increase) in inventories of finished goods	4	(4,98,750)
Employee benefit expense	5	15,75,000
Finance cost	6	22,750
Depreciation and amortization expense	7	45,500
Other expenses	8	<u>8,43,250</u>
Total expenses (II)		<u>41,33,250</u>
Profit before tax (II-III)		<u>10,51,000</u>

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues			
	Chand Ltd.		33,25,000	
	Sitara Ltd.		<u>19,07,500</u>	
			52,32,500	
	Less: Inter-company sales		(1,75,000)	
	Consultancy fees received by Sitara Ltd. from Chand Ltd.		(28,000)	
	Royalty received by Chand Ltd. from Sitara Ltd.		(5,000)	
	Brokage received by Chand Ltd. from Sitara Ltd.		<u>(21,250)</u>	
				50,03,250
2.	Other Income			
	Dividend income:			
	Chand Ltd.	1,68,000		

	Sitara Ltd.	<u>43,750</u>	2,11,750	
	Loss on sale of investments Sitara Ltd.		(26,250)	
	Other Non-operating Income			
	Chand Ltd.	35,000		
	Sitara Ltd.	10,500		
	Less: Dividend realized from Sitara Ltd. (5,00,000 x 10%)	(50,000)	<u>4,500</u>	1,81,000
3.	Cost of material purchased/consumed			
	Chand Ltd.	13,93,000		
	Sitara Ltd.	<u>4,72,500</u>		
		18,65,500		
	Less: Purchases by Sitara Ltd. From Chand Ltd.	<u>(1,75,000)</u>	16,90,500	
	Direct expenses (Production)			
	Chand Ltd.	3,15,000		
	Sitara Ltd.	<u>1,40,000</u>	<u>4,55,000</u>	21,45,500
4.	Changes (Increase) in inventories of finished goods			
	Chand Ltd.		4,37,500	
	Sitara Ltd.		<u>75,250</u>	
			5,12,750	
	Less: Unrealized profits ₹ 7,00,00 × 20/100		<u>(14,000)</u>	4,98,750
5.	Employee benefits and expenses			
	Wages and salaries:			
	Chand Ltd.		13,30,000	
	Sitara Ltd.		<u>2,45,000</u>	15,75,000
6	Finance cost			
	Interest:			
	Chand Ltd.		17,500	
	Sitara Ltd.		<u>5,250</u>	22,750
7.	Depreciation			
	Chand Ltd.		31,500	
	Sitara Ltd.		<u>14,000</u>	45,500

8.	Other expenses			
	General & Administrative expenses:			
	Chand Ltd.	2,80,000		
	Sitara Ltd.	<u>1,22,500</u>		
		4,02,500		
	Less: Consultancy fees received by Sitara Ltd. from Chand Ltd.	<u>(28,000)</u>	3,74,500	
	Royalty:			
	Sitara Ltd.	5,000		
	Less: Received by Chand Ltd.	<u>(5,000)</u>	Nil	
	Selling and distribution Expenses:			
	Chand Ltd.	3,32,500		
	Sitara Ltd.	<u>1,57,500</u>		
		4,90,000		
	Less: Brokerage received by Chand Ltd. from Sitara Ltd.	<u>(21,250)</u>	<u>4,68,750</u>	8,43,250

12. (i) 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 construction contract when:
- separate proposals have been submitted for each asset;
 - 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
 - the costs and revenues of each asset can be identified.

Therefore, AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	<u>15.10</u>
Total estimated cost of construction	<u>47.60</u>

Percentage of completion till date to total estimated cost of construction

$$= (32.50/47.60) \times 100 = 68.28\%$$

Proportion of total contract value recognised as revenue for the year ended 31st March, 2023 per AS 7 (Revised)

= Contract price x percentage of completion

= ₹ 45 lakh x 68.28% = ₹ 30.73 lakhs.

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	<u>(45.00)</u>
Total foreseeable loss to be recognized as expense	<u>2.60</u>

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

13. As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:
- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer’s request. B.S. Ltd. should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 2023.

Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to a third party. 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,00,000 (80% of ₹ 1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000 + 1,00,000) will be recognized for the year ended 31st March, 2023 in the books of B.S. Ltd.

14. As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of:

- ◆ The combined result of all segments in profit; or
- ◆ The combined result of all segments in loss,

whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

On the basis of revenue criteria, segments A, B, C and D - all are reportable segments.

On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).

On the basis of asset criteria, all segments except D are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with Accounting Standard (AS) 17.

15. (a) Reporting entity- Maya Ltd.
- Sheetal Ltd. (subsidiary) is a related party
 - Fair Ltd.(subsidiary) is a related party
- (b) Reporting entity- Sheetal Ltd.
- Maya Ltd. (holding company) is a related party
 - Fair Ltd. (subsidiary) is a related party
- (c) Reporting entity- Fair Ltd.
- Maya Ltd. (holding company) is a related party
 - Sheetal Ltd. (holding company) is a related party
 - Care Ltd. (investor/ investing party) is a related party
- (d) Reporting entity- Care Ltd.
- Fair Ltd. (associate) is a related party

16. According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment ₹	Internal rate of return (Discount rate @10%)	Present value ₹
1	3,50,000	0.909	3,18,150
2	3,50,000	0.826	2,89,100
3	3,50,000	0.751	2,62,850
4	<u>4,20,000*</u>	0.683	<u>2,86,860</u>
Total	<u>14,70,000</u>		<u>11,56,960</u>

Present value of minimum lease payments ₹ 11,56,960 is more than fair value at the inception of lease i.e. ₹ 11,50,000, therefore, the lease liability and machinery should be recognized in the books at ₹11,50,000 as per AS 19.

17. Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

	Year 2016-17 ₹	Year 2017-18 ₹
<i>EPS for the year 2021-22 as originally reported</i>		
= $\frac{\text{Net Profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$		
= (₹ 30,00,000 / 20,00,000 shares)	1.5	
<i>EPS for the year 2021-22 restated for rights issue</i>		
= [₹ 30,00,000 / (20,00,000 shares × 1.04 (W.N. 2))]	1.44 (approx.)	
<i>EPS for the year 2022-23 including effects of rights issue</i>		
$\frac{₹ 50,00,000}{(20,00,000 \text{ shares} \times 1.04 \times 2/12) + (24,00,000 \text{ shares} \times 10/12)}$		2.13 (approx.)
₹ 50,00,000 / 23,46,667 shares		

Working Notes:

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

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}$$

*Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e. 3,50,000 + 70,000 = 4,20,000.

$$= \frac{(\text{₹ } 26 \times 20,00,000 \text{ shares}) + (\text{₹ } 20 \times 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{\text{₹ } 6,00,00,000}{24,00,000 \text{ shares}} = \text{₹ } 25$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{\text{₹ } 26}{\text{₹ } 25 \text{ (Refer Working Note 1)}} = 1.04 \text{ (approx.)}$$

18. Tax as per accounting profit $15,00,000 \times 20\% = \text{₹ } 3,00,000$ Tax as per Income-tax Profit $2,50,000 \times 20\% = \text{₹ } 50,000$ Tax as per MAT $7,50,000 \times 7.5\% = \text{₹ } 56,250$

Tax expense = Current Tax + Deferred Tax

 $\text{₹ } 3,00,000 = \text{₹ } 50,000 + \text{Deferred tax}$

Therefore, Deferred Tax liability as on 31-03-2023

$$= \text{₹ } 3,00,000 - \text{₹ } 50,000 = \text{₹ } 2,50,000$$

Amount of tax to be debited in Profit and Loss account for the year 31-03-2023

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

19. Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	300	.25	150
2	300	.25	150
3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	.05	30
		1.00	<u>600</u>

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150). The unamortized amount of the patent after third year will be ₹ 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

20. (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.

- (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.