PAPER – 5: ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as ₹ 100 per £. The seller allowed trade discount @ 2.5%. The other expenditures were:

(i) Import Duty 10%

(ii) Additional Import Duty 5%

(iii) Entry Tax 2% (Recoverable later from tax department).

(iv) Installation expenses ₹ 1,50,000.

(v) Professional fees for clearance from customs ₹ 50,000.

Compute the cost of software to be capitalized as per relevant AS.

(b) State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity:

(i) Actual bad debts turning out to be more than provisions.

(ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.

(iii) Government grant receivable as compensation for expenses incurred in previous accounting period.

(iv) Treating operating lease as finance lease.

(v) Capitalisation of borrowing cost on working capital.

(vi) Legislative changes having long term retrospective application.

(vii) Change in the method of depreciation from straight line to WDV.

(viii) Government grant becoming refundable.

(ix) Applying 10% depreciation instead of 15% on furniture.

(x) Change in useful life of fixed assets.

(c) *The Senior Accountant of AMF Ltd. gives the following data regarding its five segments:*

(₹ in lakhs)

Particulars	*P*	*Q*	*R*	*S*	*T*	*Total*
	(₹)	*(₹)*	*(₹)*	*(₹)*	*(₹)*	*(₹)*
Segment Assets	*80*	*30*	*20*	*20*	*10*	*160*
Segment Results	*(190)*	*10*	*10*	*(10)*	*30*	*(150)*
Segment Revenue	*620*	*80*	*60*	*80*	*60*	*900*

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view? Examine his opinion in the light of provision of AS-17 'Segment Reporting'.

(d) *The following particulars are stated in the Balance Sheet of HS Ltd. as on 31-3-2019 :*

Particulars	*(₹ in lakhs)*
Deferred Tax Liability (Cr.)	*60.00*
Deferred Tax Assets (Dr.)	*30.00*
The following transactions were reported during the year 2019-20 :	
Depreciation as per accounting records	*160.00*
Depreciation as per income tax records	*140.00*
Items disallowed for tax purposes in 2018-19 but allowed in 2019-20	*20.00*
Donation to Private Trust	*20.00*
Tax rate	*30%*

There were no additions to fixed assets during the year. You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31-3-2020 as per AS-22. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) Calculation of cost of software (intangible asset) acquired for internal use

Purchase cost of the software	£ 1,50,000
Less: Trade discount @ 2.5%	£ (3,750)
	£1,46,250
Cost in ₹ (UK £1,46,250 x ₹ 100)	146,25,000
Add: Import duty on cost @ 10% (₹)	14,62,500
	160,87,500

Add: Additional import duty @ 5% (₹)	8,04,375
	168,91,875
Add: Installation expenses (₹)	1,50,000
Add: Professional fee for clearance from customs (₹)	50,000
Cost of the software to be capitalized (₹)	170,91,875

Note: Since entry tax has been mentioned as a recoverable / refundable tax, it is not included as part of the cost of the asset.

(b) Classification of given items is as follows:

Sr. No.	Particulars	Remarks
(i)	Actual bad debts turning out to be more than provisions	Change in Accounting Estimates
(ii)	Change from Cost model to Revaluation model for measurement of carrying amount of PPE	Change in Accounting Policy
(iii)	Government grant receivable as compensation for expenses incurred in previous accounting period	Extra -ordinary Items
(iv)	Treating operating lease as finance lease.	Prior- period Items
(v)	Capitalisation of borrowing cost on working capital	Prior-period Items (as interest on working capital loans is not eligible for capitalization)
(vi)	Legislative changes having long term retrospective application	Ordinary Activity
(vii)	Change in the method of depreciation from straight line to WDV	Change in Accounting Estimates
(viii)	Government grant becoming refundable	Extra -ordinary Items
(ix)	Applying 10% depreciation instead of 15% on furniture	Prior- period Items
(x)	Change in useful life of fixed assets	Change in Accounting Estimates

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

(i) 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

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

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

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

Accordingly,

(a) On the basis of revenue from sales criteria, segment P is a reportable segment.

(b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).

(c) On the basis of asset criteria, all segments except T 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 AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

(d) Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset

(1) Difference in Depreciation- Generally, written down value method of depreciation is adopted under income Tax Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years. It is timing difference for which reversal of Deferred tax liability is required.

Reversal of DTL= ₹ (160 – 140) Lakhs X 30% = ₹6 Lakhs

(2) Disallowances, as per IT Act of earlier years- Due to disallowance tax payable for the earlier years was higher on this account. It is responding timing difference which required Reversal of Deferred tax assets.

Reversal of Deferred tax assets = ₹20 Lakhs X 30% = ₹ 6 Lakhs

(3) Donations to private trusts is not an allowable expenditure under IT Act. It is permanent difference. Hence, no reversal of tax is required.

Question 2

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

				Galaxy Ltd.	Glory Ltd.
				₹	₹
(I)	Equity & Liabilities				
	(1)	Shareholders' fund			
		Share Capital			
		Equity shares of ₹ 10 each		8,40,000	4,55,000
		Reserves & Surplus	.		
		General Reserve		4,48,000	40,000
		Profit & Loss A/c		1,12,000	72,000
	(2)	Non-current Liabilities			
		Secured Loan			
		6% Debentures		-	3,30,000
	(3)	Current Liabilities			
		Trade Payables		4,20,000	1,83,000
			Total	18,20,000	10,80,000
(II)	Assets				
	(1)	Non-current assets			
		Property, Plant & Equipment			
		Freehold property, at cost		5,88,000	3,36,000
		Plant & Machinery, at cost less depreciation		1,40,000	84,000
		Motor vehicles, at cost less depreciation		56,000	-
	(2)	Current Assets			
		Inventories		3,36,000	4,38,000
		Trade Receivables		4,62,000	1,18,000

		Cash at Bank		*2,38,000*	*1,04,000*
			Total	*18,20,000*	*10,80,000*

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.

(iii) Goodwill is to be valued at :

Galaxy Ltd. ₹ 4,48,000

Glory Ltd. ₹ 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹ 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013. ***(20 Marks)***

Answer

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.)

	Galaxy Ltd.	***Glory Ltd.***
Purchase Consideration:	***₹***	***₹***
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000

Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	-	(3,30,000)
Trade payables	(4,20,000)	______
Net Assets taken over	19,60,000	7,20,000
To be satisfied by issue of shares of Glorious Ltd. @ ₹ 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

		Particulars	*Note No*	*Amount*
				₹
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	26,80,000
	(b)	Reserves and surplus	2	30,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	3,00,000
3		Current liabilities		
	(a)	Trade payables		4,20,000
		Total		34,30,000
		ASSETS		
1		Non-current assets		
	(a)			
	i	Property, plant and equipment	4	13,16,000
	ii	Intangible assets	5	6,16,000
2		Current assets		
	(a)	Inventories	6	7,74,000
	(b)	Trade receivables		4,62,000
	(c)	Cash and cash equivalents	7	2,62,000
		Total		34,30,000

Notes to accounts:

		₹	₹
1.	Share Capital		
	Equity share capital		
	2,68,000 shares of ₹ 10 each		26,80,000
	(All the above shares are issued for consideration other than cash)		
2.	Reserves and surplus		
	Securities Premium		
	(10% premium on debentures of ₹3,00,000)		30,000
3.	Long-term borrowings		
	Secured		
	8% 3,000 Debentures of ₹100 each		3,00,000
4.	Property Plant and Equipment		
	Freehold property		
	Galaxy Ltd.	5,88,000	
	Glory Ltd.	3,36,000	9,24,000
	Plant and Machinery		
	Galaxy Ltd.	2,52,000	
	Glory Ltd.	84,000	3,36,000
	Motor vehicles - Galaxy Ltd.		56,000
			13,16,000
5	Intangible assets		
	Goodwill		
	Galaxy Ltd.	4,48,000	
	Glory Ltd.	1,68,000	6,16,000
6	Inventories		
	Galaxy Ltd.	3,36,000	
	Glory Ltd.	4,38,000	7,74,000
7	Cash and cash equivalents		
	Galaxy Ltd.	2,38,000	
	Glory Ltd.(As per working note)	24,000	2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

		₹
Cash balance as at 31st March,2020		1,04,000
Add: Received from debtors		1,10,000
		2,14,000
Less: paid to creditors		(1,80,000)
		34,000
Less: Commission to liquidators		
On Debtors @ 5%	5,500	
On Creditors @ 2.5%	4,500	
		(10,000)
		24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is ₹ 100 each.
2. As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of ₹ 10 for discharge of debentures of ₹ 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Question 3

(a) *Ananya Enterprises is a partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 31st October, 2019 is as below:*

Liabilities	*₹*	*Assets*	*₹*
Capital:			
A	*95,00,000*	*Land & Buildings*	*45,00,000*
B	*75,00,000*	*Plant & Machinery*	*65,00,000*
C	*30,00,000*	*Furniture & Fixtures*	*18,00,000*
Sundry Creditors	*11,00,000*	*Stock*	*13,50,000*
		Sundry Debtors	*7,50,000*
		Cash	*7,00,000*
		Loan A	*25,00,000*

		Loan B	30,00,000
	2,11,00,000		2,11,00,000

On the Balance Sheet date all the three partners have decided to dissolve their partnership and called you to assist them in winding up the affairs of the firm. They also agreed that asset realization is distributed among them at the end of each month.

A summary of liquidation transactions is as follows:

November, 2019:

- *₹ 3,00,000 - collected from debtors, balance is uncollectable*
- *₹ 11,00,000 - received from the sale of entire furniture*
- *₹ 2,00,000 - liquidation expenses paid*
- *₹ 6,00,000 - Cash retained in the business at the end of month*

December, 2019:

- *₹ 2,20,000 - Liquidation expenses paid*
- *As part payment of his capital, C accepted a machinery for ₹ 9,00,000 (Book value ₹ 6,00,000)*
- *₹ 2,00,000 - Cash retained in the business at the end of month.*

January, 2020:

- *₹ 28,00,000 - Received on the sale of remaining plant & machinery*
- *₹ 9,00,000 - Received from the sale of entire stock*
- *₹ 1,50,000 - Liquidation expenses paid*
- *₹ 63,00,000 - Received on sale of Land & Buildings*
- *No cash is retained in the business.*

You are required to prepare a schedule of cash payments amongst the partners by "Highest Relative Capital Method" as on 31st January, 2020.

(b) Universal Financers Ltd. is a Non-Banking Financial Company.

It provides you the following information regarding its advances of ₹ 440 lakhs, of which instalments are overdue on :

- *550 accounts for last 3 months (amount overdue ₹ 105 lakhs)*
- *75 accounts for 4 months (amount overdue ₹ 64 lakhs)*
- *25 accounts for more than 30 months (amount overdue ₹ 66 lakhs)*

- *15 accounts already identified as sub-standard for more than 3 years (unsecured) (amount overdue ₹ 82 lakhs)*
- *8 accounts of ₹ 33 lakhs have been identified as non-recoverable by the management. (out of 25 accounts overdue for more than 30 months, 17 accounts are already identified as sub standard for more than 12 months (amount overdue ₹ 19 lakhs) and others are identified as substandard asset for a period of less than 12 months.*

Classify the assets of the company In line with the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. ***(15+5=20 Marks)***

Answer

(a) **Statement showing distribution of cash**

		Creditors	Capitals		
Particulars	**₹**	**₹**	**A (₹)**	**B (₹)**	**C (₹)**
Balance Due after loan		11,00,000	70,00,000	45,00,000	30,00,000
Nov. 2019					
Balance available	7,00,000				
Realization less expenses					
and cash retained	6,00,000				
Amount available and paid	13,00,000	11,00,000	-	1,20,000	80,000
Balance due		—	70,00,000	43,80,000	29,20,000
Dec. 2019					
Opening balance	6,00,000				
Expenses paid and					
balance carried forward	4,20,000				
Available for distribution	1,80,000				
Cash paid to B and Machinery given to C			—	1,80,000	9,00,000
Balance due			70,00,000	42,00,000	20,20,000
Jan.2020					
Opening balance	2,00,000				
Amount realized less expenses	98,50,000				

Amount available and paid to partners	100,50,000				
First, ₹31,20,000 is paid to A and B in the ratio of 5:3			19,50,000	11,70,000	
Balance (100,50,000 – 31,20,000) ₹ 69,30,000 is paid to A,B and C in the ratio of 5:3:2			34,65,000	20,79,000	13,86,000
Total amount paid			54,15,000	32,49,000	13,86,000
Total loss			15,85,000	9,51,000	6,34,000

Working note:

Calculation of Highest Relative Capital Basis

(1) Scheme of payment for November

Particulars	**A** ₹	**B** ₹	**C** ₹
Balance of Capital Accounts	95,00,000	75,00,000	30,00,000
Less: Loans	(25,00,000)	(30,00,000)	—
	70,00,000	45,00,000	30,00,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	15,00,000	15,00,000
Capital in profit sharing ratio, taking A's capital as base	70,00,000	42,00,000	28,00,000
Excess of C's Capital and B's Capital (A-B)		3,00,000	2,00,000
Profit-sharing ratio		3	2

It means realization up to ₹ 5,00,000 is distributed among B and C in the ratio of 3:2. So excess amount of ₹ 2,00,000 after paying creditors is distributed among B and C in the ratio of 3:2 i.e. ₹ 1,20,000 and 80,000 respectively.

(2) Scheme of payment for December

In the month of December C has received machinery amounting ₹ 9,00,000 against his excess capital of ₹ 1,20,000 (2,00,000 – 80,000). Excess capital of B is ₹ 3,00,000 out of which ₹ 1,20,000 already paid to him, so balance ₹ 1,80,000 available in the month of December will be paid to B.

(3) Scheme of payment for January

Particulars	A	B	C
	₹	₹	₹
Balance of Capital Accounts at the end of December	70,00,000	42,00,000	20,20,000
Profit-sharing ratio	5	3	2
Capital Profit sharing ratio	14,00,000	14,00,000	10,10,000
Capital in profit sharing ratio, taking C's capital as base	50,50,000	30,30,000	20,20,000
Excess Capital	19,50,000	11,70,000	

Since ₹ 19,50,000 and ₹ 11,70,000 is already in the ratio of 5:3, so amount realized up to ₹ 31,20,000 is distributed among A and B in the ratio of 5:3.

After that any amount realized is distributed among all the three partners in the ratio of 5:3:2.

(b) 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)	90	
550 accounts overdue for a period of 3 months	105	
75 accounts overdue for a period of 4 months	64	259
Sub-Standard Assets		
8 accounts identified as sub-standard asset for a period less than 12 months		47
Doubtful Debts		
17 accounts identified as sub-standard for a period more than 12 months		19
15 accounts identified as sub-standard for a period more than 3 years		82
Loss Assets		
8 accounts identified by management as loss asset		33
Total overdue		440

Question 4

On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
	₹	₹
Shareholders' Fund		
Issued and subscribed		
Equity shares of ₹ 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	25,20,000	6,16,800
Assets		
Non-Current Assets	•	
(a) Property, Plant & Equipment	.	
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd.	3,84,000	-
(19,200 shares at ₹ 20 each)		
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
Total	25,20,000	6,16,800

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives:

Machinery 10%, Furniture 15%).

(c) On 31st March, 2020, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020. ***(20 Marks)***

Answer

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

Particulars	**Note No.**	**(₹)**
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	6	5,08,000
(c) Cash and Cash equivalents		96,000
Total		28,67,400

Notes to Accounts

				₹
1.	Share Capital			
	Equity share capital			13,40,000
	1,34,000 shares of ₹ 10 each fully paid up			
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
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
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
5.	Intangible assets			
	Goodwill [WN 6]			28,800
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

Working Notes:

1.	Pre-acquisition profits and reserves of S Ltd.	₹
	Reserves	60,000
	Profit and Loss Account	36,000
		96,000
	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 ₹ (3,60,000 – 2,40,000)	1,20,000
	Less: Loss on Furniture ₹(48,000 –36,000)	(12,000)
	Net Profit on revaluation	1,08,000
	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
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 = ₹ 60,000 – ₹ 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15%	
on ₹ 12,000 i.e. (48,000 – 36,000)	1,800
	25,800
Less: Under depreciation on machinery @ 10%	
on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)	(12,000)
Adjusted post-acquisition profits	13,800
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
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

Question 5

(a) *A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk-adjusted asset and risk weighted assets ratio:*

Capital Funds:	***(₹ in lakhs)***
Equity Share Capital	*29,00*
Perpetual Non-cumulative Preference Shares	*8,00*
Perpetual Cumulative Preference Shares (fully paid up)	*5,50*
Statutory Reserve	*13,50*
Capital Reserve (of which ₹ 13.5 lakhs were due to revaluation of assets and the balance due to sale of assets)	*45*
Securities Premium	*7,00*
Assets:	
Cash balance with RBI	*3,50*
Balances with other banks	*4,75*
Claims on Banks	*10,25*
Investments in Bonds issued by other banks	*78,00*
Investments in venture capital funds	*17,00*
Other investments	*121,00*
Loan and Advances:	
(i) Loans guaranteed by Government	*16,10*
(ii) Loans guaranteed by public sector undertakings	*6,20*
(iii) Leased assets	*4*
(iv) Advances against term deposits	*15,00*
(v) Educational loans	*12*

Other Assets:

(i)	*Premises, Furniture & Fixtures and other assets*	*150,55*
(ii)	*Intangible assets*	*18*
(iii)	*Deferred tax asset*	*0.40*

Off Balance Sheet Items :

(i)	*Acceptances, Endorsements & letter of credit*	*203,00*
(ii)	*Non funded exposure to real estate*	*19,00*

(b) *In the winding up of a company, certain Creditors could not receive payments out of the realization of assets and out of contribution from "A" list contributories. Liquidation started on 1st April, 2020. The following persons have transferred their holdings before winding up :*

Name	*Date of Transfer*	*No. of shares transferred*	*Amount due to creditors on the date of transfer (₹)*
O	*4th April, 2019*	*1,000*	*42,000*
P	*2nd Feb, 2019*	*300*	*25,000*
Q	*8th Sep, 2019*	*200*	*57,000*
R	*11th Nov, 2019*	*1,400*	*85,000*
S	*2nd Feb, 2020*	*800*	*66,000*
T	*1st March, 2020*	*1,400*	*95,000*

The shares were of ₹ 100 each, ₹ 70 being called up and paid up on the date of transfers.

'X' was the transferee of shares held by S. 'X' paid ₹ 30 per share as calls in advance immediately on becoming a member.

Ignoring Expenses of Liquidation, Remuneration of Liquidator, etc. work out the amount to be realized from the above contributories. ***(10+10= 20 Marks)***

Answer

(a)

		(in lakhs)
(i)	**Capital Funds - Tier I:**	
	Equity Share Capital	29,00.00
	Securities premium	7,00.00
	Perpetual non-cumulative pref. shares	8,00.00
	Statutory Reserve	13,50.00

Capital Reserve (arising out of sale of assets)			31.50
			57,81.50
Less: Intangible assets	(18.00)		
Deferred tax assets	(0.40)		(18.40)
Total			57,63.10
Capital Funds - Tier II:			
Perpetual cumulative pref. shares			5,50.00
Capital Reserve (arising out of revaluation of assets)		13.50	
Less: Discount to the extent of 55%		(7.43)*	6.07
Total			556.07
Total Capital Funds			63,19.17

* *7.425 has been rounded off as 7.43.*

(ii) Calculation of Risk Adjusted Assets

	₹ in lakhs	Weight in %	Amount (₹ in lakhs)
Funded Risk Assets			
Cash Balance with RBI	3,50	0	0
Balances with other Banks	4,75	20	95
Claims on banks	10,25	20	2,05
Investment in bonds issued by other banks	78,00	20	15,60
Investment in venture capital funds	17,00	150	25,50
Other Investments	121,00	100	121,00
Loans and Advances:			
(i) guaranteed by government	16,10	0	0
(ii) guaranteed by public sector undertakings	6,20	0	0
(iii) Leased assets	4	100	4
(iv) Advances against term deposits	15,00	0	0
(v) Educational Loans	12	100	12
Premises, furniture and fixtures	150,55	100	150,55
			315,81

Off-Balance Sheet Item	*₹ in lakhs*	*Credit Conversion Factor*	*₹ in lakhs*
Acceptances, Endorsements and Letters of credit	203,00	100	203,00
Non-funded exposure to real estate sector	19,00	150	28,50
			231,50

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

Capital Adequacy Ratio = 63,19.17/315,81+231,50

= (63,19.17/547,31) x 100=11.55%

(b) Statement of Liability as Contributories of Former Members

	Creditors outstanding	Amount to be paid to creditors (Increase in creditors)	O 1,000 Shares	Q 200 Shares	R 1,400 Shares	T 1,400 Shares	Amount to be paid to the creditors
Date	₹	₹	₹	₹	₹	₹	₹
April 4	42,000	42,000	10,500	2,100	14,700	14,700	42,000
Sep 8	57,000	15,000	-	1,000	7,000	7,000	15,000
Nov 11	85,000	28,000	-	-	14,000	14,000	28,000
March 1	95,000	10,000	-	-	-	10,000	6,300*
Total (A)			10,500	3,100	35,700	45,700	
Maximum liability at ₹ 30 per shares on shares held (B)			30,000	6,000	42,000	42,000	
Amount paid [Lower of (A) and (B)]			10,500	3,100	35,700	42,000	91,300

*₹ (10,000 – 3,700 = 6,300)

T can be called upon to pay maximum only ₹ 42,000. So T will pay only ₹ 6,300 (42,000 – 14,700 – 7,000 – 14,000) out of ₹ 10,000 above. Hence incremental creditors on 1.03.2020 amounting to ₹ 3,700 (10,000 – 6,300) will not be receiving any payment.

Note:

1. P will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer.

2. S also will not be liable, as the transferee X has paid the balance ₹ 30 per share as call in advance.

Question 6

Answer any four of the following:

(a) X Ltd. sold machinery having WDV of ₹ 300 lakhs to Y Ltd. for ₹ 400 lakhs and the same machinery was leased back by Y Ltd. to X Ltd. The lease back arrangement is operating lease. Give your comments in the following situations:

(i) Sale price of ₹ 400 lakhs is equal to fair value.

(ii) Fair value is ₹ 450 lakhs.

(iii) Fair value is ₹ 350 lakhs and the sale price is ₹ 250 lakhs.

(iv) Fair value is ₹ 300 lakhs and sale price is ₹ 400 lakhs.

(v) Fair value is ₹ 250 lakhs and sale price is ₹ 290 lakhs.

(b) List the conditions to be fulfilled as per AS-14 (Revised) for an amalgamation to be in the nature of merger.

(c) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2019, it granted 2,500 employees stock options at ₹ 50 per share, when the market price was ₹ 140 per share. The options were to be exercised between 1-10-2019 to 31-03-2020. The employees exercised their options for 2,400 shares only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

You are to required to pass the necessary Journal Entries (including narration) for the year ended 31-03-2020, with regard to employees' stock options and give working notes also.

(d) Equity Capital is held by Anu, Adi and Arun in the proportion of 30 : 30 : 40 and Preference Share Capital is held by Sonu, Shri and Sanaya in the proportion of 40 : 10 : 50. If the paid up Equity Share Capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find the proportion and percentage of their voting right in case of resolution of winding up of the company.

(e) The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

(i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.

(ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.

(iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy-back of shares in the books of Umang Ltd. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

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

(i) When sale price of ₹ 400 lakhs is equal to fair value, X Ltd. should immediately recognise the profit of ₹100 lakhs (i.e. 400 – 300) in its books.

(ii) When fair value is ₹ 450 lakhs then also profit of ₹ 100 lakhs should be immediately recognised by X Ltd.

(iii) When fair value of leased machinery is ₹ 350 lakhs & sales price is ₹ 250 lakhs, then loss of ₹ 50 lakhs (300 – 250) to be immediately recognised by X Ltd. in its books provided loss is not compensated by future lease payment.

(iv) When fair value is ₹ 300 lakhs & sales price is ₹ 400 lakhs then, profit of ₹ 100 lakhs is to be deferred and amortised over the lease period.

(v) When fair value is ₹ 250 lakhs & sales price is ₹ 290 lakhs, then the loss of ₹ 50 lakhs (300-250) to be immediately recognised by X Ltd. in its books and profit of ₹ 40 lakhs (290-250) should be amortised/deferred over lease period.

(b) Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(c) Journal Entries in the books of Raja Ltd.

			₹	₹
1.10.19 to 31.3.20	Bank A/c	Dr.	1,20,000	
	Employee compensation expense A/c	Dr.	2,16,000	
	To Equity share capital A/c			24,000
	To Securities premium A/c			3,12,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.20	Profit and Loss A/c	Dr.	2,16,000	
	To Employee compensation expense A/c			2,16,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st August, 2019;

Working Note:

Market Price = ₹ 140 per share and stock option price = ₹ 50, Hence, the difference ₹ (140 – 50) = ₹ 90 per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 2,400 shares. Hence, Employee compensation expenses will be 2,400 shares X ₹ 90 = ₹ 2,16,000

(d) Equity capital is held by Anu, Adi and Arun in the proportion of 30:30:40. Sonu, Shri and Sanaya hold preference share capital in the proportion of 40:10:50. If the paid up equity share capital of the company is ₹ 60 lakhs and Preference share capital is ₹ 30 Lakh, then relative weight in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be:

Shareholders		Relative weights	Voting Power
Anu	2/3X30/100	3/15	20.00%
Adi	2/3X30/100	3/15	20.00%
Arun	2/3 X40/100	4/15	26.67%
Sonu	1/3X40/100	4/30	13.33%

Shri	1/3X10/100	1/30	3.33%
Sanaya	1/3X50/100	5/30	16.67%

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

			Dr. ₹	*Cr.* ₹
1.	Bank A/c	Dr.	25,00,000	
	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	
	To 12% Pref. Share capital A/c			20,00,000
	(Being 12% Pref. Shares issued for ₹ 20,00,000)			
3.	Equity share capital A/c	Dr.	50,00,000	
	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	
	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	
	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	
	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)			