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) As per the provision of AS 4, you are required to state with reason whether the following transactions are adjusting event or non-adjusting event for the year ended 31.03.2021 in the books of NEW Ltd. (accounts of the company were approved by board of directors on 10.07.2021):

1. Equity Dividend for the year 2020-21 was declared at the rate of 7% on 15.05.2021.

2. On 05.03.2021, ₹ 53,000 cash was collected from a customer but not deposited by the cashier. This fraud was detected on 22.06.2021.

3. One building got damaged due to occurrence of fire on 23.05.221. Loss was estimated to be ₹ 81,00,000.

(b) Given the following information of Rainbow Ltd.

(i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

(ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.

(iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.

(iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2020-21.

(v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

(c) Surgical Ltd, is developing a new production process of surgical equipment. During the financial year ended 31st March 2020 the total expenditure incurred on the process was ₹ 67 lakhs. The production process met the criteria for recognition as an intangible asset on 1st January 2020. Expenditure incurred till this date was ₹ 35 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March 2021 ₹ 105 lakhs. As on 31st March 2021, the recoverable amount of technique embodied in the process is estimated to be ₹ 89 lakhs. This includes estimates of future cash outflows and inflows.

Under the provisions of AS 26, you are required to ascertain:

(i) The expenditure to be charged to Profit and Loss Account for the year ended 31st March 2020;

(ii) Carrying amount of the intangible asset as on 31st March 2020;

(iii) Expenditure to be charged to Profit and Loss Account for the year ended 31st March 2021;

(iv) Carrying amount of the intangible asset as on 31st March 2021.

(d) Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9000); the payment of 9% Debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹ 18 per share in cash; allotment of two 11% preference shares of ₹ 10/- each and one equity share of ₹ 10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively.

The number of shares of the vendor company is 1,50,000 of ₹ 10/- each fully paid.

Calculate purchase consideration as per AS-14. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) (i) If dividends are declared after the balance sheet date but before the financial statements are approved, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes. Thus, no liability for dividends needs to be recognized in financial statements for financial year ended 31st March, 2021 and declaration of dividend is non-adjusting event.

(ii) As per AS 4 'Contingencies and Events occurring after the Balance Sheet Date' an event occurring after the balance sheet date may require adjustment to the reported values of assets, liabilities, expenses or incomes if such events relate to conditions existing at the balance sheet date. In the given case, fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to recognize the loss. Thus loss amounting ₹ 53,000 should be adjusted in the accounts of the company for the year ended 31st March, 2021 as it is adjusting event.

(iii) AS 4 states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The damage of one building due to fire did not exist on the balance sheet date i.e. 31.3.2021. Therefore, loss occurred due to fire is not to be recognized in the financial year 2020-2021 as it is non-adjusting event.

However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the fire has caused major destruction; therefore, fundamental accounting assumption of going concern would have to be evaluated. Considering that the going concern assumption is still valid, the fact of fire together with an estimated loss of ₹ 81 lakhs should be disclosed in the report of the approving authority for financial year 2020-21 to enable users of financial statements to make proper evaluations and decisions.

(b) (i) As per AS 9 "Revenue Recognition", 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 ₹ 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.

(v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

(c) As per AS 26 'Intangible Assets'

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

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

(ii) **Carrying value of intangible asset as on 31.03.2020**

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

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

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

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

(iv) **Carrying value of intangible asset as on 31.03.2021**

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

(d) As per AS 14 "Accounting for Amalgamations", the term consideration has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Purchase consideration will be:

	₹	Form
Equity shareholders:		
1,50,000 × ₹ 18	27,00,000	Cash
1,50,000 × 2/3 × ₹ 10	10,00,000	11% Pref. shares
1,50,000 × 1/3 × ₹ 13	6,50,000	Equity shares
	43,50,000	

Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of vendor company will be taken by transferee company, which will then be settled by issuing new debentures.
2. Liquidation expenses will also not form part of purchase consideration.

Question 2

(a) (i) Can preference shares be also issued with differential rights? Explain in brief.

(ii) Explain the conditions under Companies (Shares Capital and Debentures) Rules 2014, to deal with equity shares with differential rights. ***(5 Marks)***

(b) Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

(₹ In Lakhs)

	Particulars	*Note No.*	*Dark Ltd.*	*Fair Ltd.*
1	*Equity and Liabilities*			
	(1) Shareholders' Funds			
	(a) Share Capital	*1*	*1,650*	*1,425*
	(b) Reserves and Surplus	*2*	*630*	*495*
	(2) Non-Current Liabilities			
	Long Term Borrowings:			
	10% Debentures of 100 ₹ each		*90*	*45*
	(3) Current Liabilities			
	Trade Payables		*630*	*285*
	Total		*3,000*	*2,250*
II	*Assets*			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		*1,350*	*975*

		(b) Non Current Investments		*225*	*75*
	(2)	*Current Assets*			
		(a) Inventories		*525*	*375*
		(b) Trade Receivables		*450*	*525*
		(c) Cash and Cash Equivalents		*450*	*300*
		Total		*3,000*	*2,250*

Notes to Accounts

		Dark Ltd. (₹ in Lakh)	**Fair Ltd. (₹ in Lakh)**
1	*Share Capital*		
	Equity Shares of ₹ 100 each	*1, 200*	*1,125*
	14% Preference Shares of ₹ 100 each	*450*	*300*
		1,650	*1,425*
2	*Reserves and Surplus*		
	Revaluation Reserve	*225*	*150*
	General Reserve	*255*	*225*
	Investment Allowance Reserve	*75*	*75*
	Profit and Loss Account	*75*	*45*
		630	*495*

Additional Information:

(i) *Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.*

(ii) *Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).*

(iii) *10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.*

(iv) *Investment allowance reserve is to be maintained for 4 more years.*

(v) *Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.*

(vi) *All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.*

(vii) Authorized equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity share of ₹ 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. ***(15 Marks)***

Answer

(a) (i) No; the preference shares cannot be issued with differential rights. It is only the equity shares, which are issued. Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise.

(ii) As per Share Capital and Debentures Rules, 2014, for equity shares with differential rights, following conditions to be compulsorily complied with:

- The articles of association of the company authorizes the issue of shares with differential rights;
- The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- The voting power in respect of shares with differential rights shall not exceed seventy four percent of the total voting power including voting power in respect of equity shares with differential rights issued at any point of time;
- The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

  Provided that a company may issue equity shares with differential rights upon expiry of five years from the end of financial year in which such default was made good.

- The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

(b) **Balance Sheet of Bright Ltd. as at 1st April, 2021**

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	4,200
(2) **Non-Current Liabilities**		
Long-term borrowings	3	84.375
(3) **Current Liabilities**		
Trade payables	4	915
Total		7449.375
II. **Assets**		
(1) **Non-current assets**		
(a) i. Property, plant and equipment	5	2,325
ii. Intangible assets	6	633.375
(b) Non-current investments	7	300
(2) **Current assets**		
(a) Inventories	8	900
(b) Trade receivables	9	975
(c) Cash and cash equivalents	10	2316
Total		7449.375

Notes to Accounts

		(₹ in lakhs)	*(₹ in lakhs)*
1.	Share Capital		
	Authorized Share Capital		
	1,50,00,000 Equity shares of ₹10 each	1500	
	7,50,000 16% Preference Share of 100 each	750	

	Issued: 1,50,00,000 Equity shares of ₹ 10 each (Out of which 1,05,00,000 Shares were Issued for consideration other than cash)	1500	
	7,50,000 16% Preference Shares of 100 each (Issued for consideration other than cash)	750	2,250
2.	Reserves and surplus		
	Securities Premium Account		
	(1,50,00,000 shares ×₹ 25) 3750		
	(7,50,000 shares × ₹ 60) 450	4,200	
	Investment Allowance Reserve	150	
	Amalgamation Adjustment Reserve	(150)	4,200
3.	Long-term borrowings		
	16% Debentures (56,25,000+28,12,500) (W.N. 3)		84.375
4.	Trade payables		
	Dark Ltd.	630	
	Fair Ltd.	285	915
5.	Property, plant & equipment		
	Land and Building	1350	
	Plant and Machinery	975	2,325
6.	Intangible assets		
	Goodwill [W.N. 2] 624.375		
	Add: liquidation exp. (6+3) 9.00		633.375
7.	Non-current Investments		
	Investments (225+75)		300
8.	Inventories		
	Dark Ltd.	525	
	Fair Ltd.	375	900
9	Trade receivables		
	Dark Ltd.	450	
	Fair Ltd.	525	975
10	Cash & cash equivalents		
	Dark Ltd.	450	

	Fair Ltd.	300	
	Liquidation Expenses (6+3)	(9)	
	Shares issued for cash (45 lakh shares x ₹35)	1575	2316

Working Notes:

		(₹ in lakhs)	
		Dark Ltd.	*Fair Ltd.*
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	$\left(\frac{4,50,00,000}{100}\right)$ i.e. 4,50,000 shares × ₹ 160 each	720	
	$\left(\frac{3,00,00,000}{100}\right)$ i.e. 3,00,000 shares × ₹ 160 each		480
	(b) Equity shareholders:		
	$\left(\frac{12,00,00,000 \times 5}{100}\right)$ i.e. 60,00,000 shares x ₹ 35 each	2,100	
	$\left(\frac{11,25,00,000 \times 4}{100}\right)$ i.e. 45,00,000 shares × ₹ 35 each	———	1,575
	Amount of Purchase Consideration	2,820	2,055
(2)	Net Assets Taken Over		
	Assets taken over:		
	Property Plant & Equity	1,350	975
	Non-Current Investments	225	75
	Inventory	525	375
	Trade receivables	450	525
	Cash and bank	450	300
		3,000	2,250
	Less: Liabilities taken over:		
	10% Debentures 56.25		28.125

	Trade payables	630	(686.25)	285	(313.125)
	Net assets taken over		2,313.75		1936.875
	Purchase consideration		2,820		2055.00
	Goodwill		506.25		118.125
	Total goodwill				624.375

(3) Issue of Debentures

Debentures	₹ 90,00,000	₹ 45,00,000
Interest 10%	₹ 9,00,000	₹ 4,50,000
	$\left(\frac{9,00,000 \times 100}{16}\right)$= 56,25,000	$\left(\frac{4,50,000 \times 100}{16}\right)$= 28,12,500

NOTE: In the above solution ₹ 35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as ₹ 10 also possible. In that case, the balance of cash and cash equivalents will be ₹ 1,191 lakhs and securities premium will be ₹ 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

Question 3

(a) Moon Ltd. and its subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021:

Particulars	***Moon Ltd (₹)***	***Star Ltd. (₹)***
Equity Share Capital	*20,000,000*	*6,000,000*
Finished Goods Inventory as on 01.04.2020	*4,200,000*	*3,010,000*
Finished Goods Inventory as on 31.03.2021	*8,575,000*	*3,762,500*
Dividend Income	*1,680,000*	*437,500*
Other non-operating Income	*350,000*	*105,000*
Raw material consumed	*13,930,000*	*4,725,000*
Selling and Distribution Expenses	*3,325,000*	*1,575,000*
Production Expenses	*3,150,000*	*1,400,000*
Loss on sale of investments	*262,500*	*Nil*
Sales and other operating income	*33,250,000*	*19,075,000*
Wages and Salaries	*13,300,000*	*2,450,000*
General and Administrative Expenses	*2,800,000*	*1,225,000*
Royalty paid	*Nil*	*50,000*
Depreciation	*315,000*	*140,000*
Interest expense	*175,000*	*52,500*

Other information

- *On 1st September 2018 Moon Ltd., acquired 50,000 equity shares of ₹ 100 each fully paid up in Star Ltd.*
- *Star Ltd. paid a dividend of 10% for the year ended 31st March 2020. The dividend was correctly accounted for by Moon Ltd.*
- *Moon Ltd. sold goods of ₹ 17,50,000 to Star Ltd. at a profit of 20% on selling price. Inventory of Star Ltd. includes goods of ₹ 7,00,000 received from Moon Ltd.*
- *Selling and Distribution expenses of Star Ltd. include ₹ 2,12,500 paid to Moon Ltd. as brokerage fees.*
- *General and Administrative expenses of Moon Ltd. include ₹ 2,80,000 paid to Star Ltd. as consultancy fees.*
- *Star Ltd. used some resources of Moon Ltd., and Star Ltd. paid ₹ 50,000 to Moon Ltd. as royalty.*

Prepare Consolidated Statement of Profit and Loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended 31st March, 2021 as per Schedule III to the Companies Act, 2013.

(b) *GEM Ltd. is a NBFC providing Hire Purchaser Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March 2021.*

	₹ in Lakhs
Paid up Equity Capital	*2520*
Compulsory convertible preference shares	*1035*
Free Reserve	*243*
Securities premium	*56*
Capital Reserve *(₹ 220 Lakhs surplus arising out of sale of Building)*	*319*
Deferred revenue expenditure	*54*
Debenture issued	*702*
Cash & Bank Balances	*243*
Investments in debentures of subsidiaries	*171*
Investments in shares of other NBFC	*945*

You are required to calculate Owned Fund and Net Owned Fund. ***(15 +5 = 20 Marks)***

Answer

(a) Consolidated statement of profit and loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended on 31st March, 2021

Particulars	***Note No.***	₹
Revenue from operations	1	5,00,32,500
Other Income	2	23,10,000
Total revenue (I)		5,23,42,500
Expenses:		
Cost of material purchased/consumed	3	2,14,55,000
Changes (Increase) in inventories of finished goods	4	(49,87,500)
Employee benefit expense	5	1,57,50,000
Finance cost	6	2,27,500
Depreciation and amortization expense	7	4,55,000
Other expenses	8	84,32,500
Total expenses (II)		4,13,32,500
Profit before tax (II-III)		1,10,10,000

Notes to Accounts:

			₹	₹
1.	Revenue from operations			
	Sales and other operating revenues[1]			
	Moon Ltd.		3,32,50,000	
	Star Ltd.		190,75,000	
			523,25,000	
	Less: Inter-company sales		(17,50,000)	
	Consultancy fees received by Star Ltd. from Moon Ltd.		(2,80,000)	
	Royalty received by Moon Ltd. from Star Ltd.		(50,000)	
	Brokage received by Moon Ltd. from Star Ltd.		(2,12,500)	5,00,32,500

[1] *Consultancy fees, Royalty and brokerage received are considered as operating revenues in the given answer.*

2.	Other Income			
	Dividend income:			
	Moon Ltd.	16,80,000		
	Star Ltd.	4,37,500	21,17,500	
	Loss on sale of investments Star Ltd.		(2,62,500)	
	Other Non-operating Income			
	Moon Ltd.	3,50,000		
	Star Ltd.	1,05,000	4,55,000	23,10,000
3.	Cost of material purchased/consumed			
	Moon Ltd.	1,39,30,000		
	Star Ltd.	47,25,000		
		1,86,55,000		
	Less: Purchases by Star Ltd. From Moon Ltd.	(17,50,000)	1,69,05,000	
	Direct expenses (Production)			
	Moon Ltd.	31,50,000		
	Star Ltd.	14,00,000	45,50,000	2,14,55,000
4.	Changes (Increase) in inventories of finished goods			
	Moon Ltd.		43,75,000	
	Star Ltd.		7,52,500	
			51,27,500	
	Less: Unrealized profits ₹ 7,00,000 × 20/100		(1,40,000)	49,87,500
5.	Employee benefits and expenses			
	Wages and salaries:			
	Moon Ltd.		1,33,00,000	
	Star Ltd.		24,50,000	1,57,50,000
6	Finance cost			
	Interest:			
	Moon Ltd.		1,75,000	
	Star Ltd.		52,500	2,27,500

7.	Depreciation			
	Moon Ltd.		3,15,000	
	Star Ltd.		1,40,000	4,55,000
8.	Other expenses			
	General & Administrative expenses:			
	Moon Ltd.	28,00,000		
	Star Ltd.	12,25,000		
		40,25,000		
	Less: Consultancy fees received by Star Ltd. from Moon Ltd.	(280,000)	37,45,000	
	Royalty:			
	Star Ltd.	50,000		
	Less: Received by Moon Ltd.	(50,000)	Nil	
	Selling and distribution Expenses:			
	Moon Ltd.	33,25,000		
	Star Ltd.	15,75,000		
		49,00,000		
	Less: Brokerage received by Moon Ltd. from Star Ltd.	(2,12,500)	46,87,500	84,32,500

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

		₹ in lakhs
Paid up Equity Capital		2,520
Free Reserves		243
Compulsory convertible preference shares		1035
Securities Premium		56
Capital Reserve (arising out of sale of building)		220
		4074
Less: Deferred revenue expenditure		(54)
Owned Fund	A	4020
Investments		
In shares of other NBFC		945
In debentures of subsidiaries and group companies		171
	B	1116

10% of A		402
Excess of Investment over 10% of A (1116-402)	C	714
Net Owned Fund [(A) - (C)] (4020-714)		3306

Question 4

(a) *TJM & Sons is a partnership firm consisting of T, J and M who share profits and loses in the ratio of 2:2:1 and JEK Limited is another company doing similar business.*

The firm (TJM & Sons) and the company (JEK Ltd) provide you the following ledger balances as on 31.03.2021:

	TJM Sons (₹)	***JEK Ltd. (₹)***
Debit Balances:		
Plant & Machinery	*7,50,000*	*24,00,000*
Furniture & Fixtures	*75,000*	*3,37,500*
Inventories	*3,00,000*	*12,75,000*
Trade receivables	*3,00,000*	*12,37,500*
Cash at Bank	*15,000*	*6,00,000*
Cash in hand	*60,000*	*1,50,000*
Credit Balances		
Equity share capital: Equity shares of ₹ 10 each		*30,00,000*
Partners Capitals		
T	*3,00,000*	
J	*4,50,000*	
M	*1,50,000*	
General Reserve	*1,50,000*	*10,50,000*
Trade Payables	*4,50,000*	*19,50,000*

On the balance sheet date, it was decided that the firm TJM & Sons be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by JEK Limited by issuing 75,000 shares of ₹ 10/- each at a premium of ₹ 4/- per share. Plant & Machinery and Furniture & Fixtures are to be revalued at ₹ 8,50,000 and ₹ 1,00,000.

Partners of TJM & Sons agreed to divide the shares issued by JEK Limited in the profit-sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of TJM & Sons include ₹ 1,50,000 payables to JEK Limited. An unrecorded liability of ₹ 37,500 of TJM & Sons must also be taken over by JEK Ltd.

You are required to prepare:

(i) Realization account, Partners' capital accounts and cash in hand/Bank account in the books of TJM & Sons.

(ii) Pass journal entries in the books of JEK Limited for acquisition of TJM & Sons.

(b) State the circumstances when Garner v/s Murray rule is not applicable. ***(15 + 5 = 20 Marks)***

Answer

(a) (i) In the books of TJM& Sons

Realization Account

Particulars		***₹***	***Particulars***	***₹***
To Plant & Machinery		7,50,000	By Trade payable	4,50,000
To Furniture & Fixture		75,000	By JEK Ltd. (Refer W.N.)	10,50,000
To Inventories		3,00,000		
To Trade receivables		3,00,000		
To Partners' Capital Accounts (Profit):				
T's Capital A/c	30,000			
J's Capital A/c	30,000			
M's Capital A/c	15,000	75,000		
		15,00,000		15,00,000

Partners' Capital Accounts

Particulars	*T* ₹	*J* ₹	*M* ₹	*Particulars*	*T* ₹	*J* ₹	*M* ₹
To Shares in JEK Ltd.	4,20,000	4,20,000	2,10,000	By Balance b/d	3,00,000	4,50,000	1,50,000
To Cash	-	1,20,000		By General Reserve	60,000	60,000	30,000
				By Realization A/c	30,000	30,000	15,000
				By Cash	30,000	-	15,000
	4,20,000	5,40,000	2,10,000		4,20,000	5,40,000	2,10,000

Cash and Bank Account

Particulars	Cash ₹	Bank ₹	*Particulars*	Cash ₹	Bank ₹
To Balance b/d	60,000	15,000	By Cash A/c (Contra)*		15,000
To Bank A/c (Contra)*	15,000		By J	1,20,000	
To T	30,000				
To M	15,000				
	1,20,000	15,000		1,20,000	15,000

(ii) Journal Entries in the Books of JEK Ltd.

			Dr. (₹)	*Cr. (₹)*
1.	Business Purchase Account	Dr.	10,50,000	
	To Liquidators of TJM& Sons			10,50,000
	(Being business of TJM& Sons purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	8,50,000	
	Furniture and Fixture A/c	Dr.	1,00,000	
	Inventories A/c	Dr.	3,00,000	
	Trade Receivables A/c	Dr.	3,00,000	
	To Trade Payables			4,50,000
	To Unrecorded Liability			37,500
	To Business Purchase Account			10,50,000
	To Capital Reserve (B.F.)			12,500
	(Being take over of all assets and liabilities)			
3.	Liquidators of TJM& Sons	Dr.	10,50,000	
	To Equity Share Capital Account			7,50,000
	To Securities Premium Account			3,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 4 each)			
4.	Trade Payables Account	Dr.	1,50,000	
	To Trade Receivables Account			1,50,000
	(Being mutual owing eliminated)			

**It is assumed that cash at bank has been withdrawn to pay to Partner J.*

Working Note:

Computation of purchase consideration:

75,000 Equity shares of ₹14 each = ₹ 10,50,000

Equity shares to be given to partners :

T	=	30,000 Shares @ ₹ 14 = ₹ 4,20,000
J	=	30,000 shares @ ₹ 14 = ₹ 4,20,000
M	=	15,000 shares @ ₹ 14 = ₹ 2,10,000

(b) Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.
4. When all the partners of the firm are insolvent.

Question 5

(a) Mohan Ltd. furnishes the following summarised Balance Sheet on 31st March 2021.

(₹ in Lakhs)

	Amount
Equity and Liabilities:	
Shareholders' fund	
Share Capital	
Equity Shares of ₹ 10 each fully paid up	*780*
6% Redeemable Preference shares of ₹ 50 each fully Paid up	*240*
Reserves and Surplus	
Capital Reserves	*58*
General Reserve	*625*
Securities Premium	*52*
Profit & Loss	*148*
Revaluation Reserve	*34*
Infrastructure Development Reserve	*16*

Non-current liabilities	
7% Debentures	*268*
Unsecured Loans	*36*
Current Liabilities	*395*
	2652
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	*725*
Investment at cost	*720*
Current Assets	*1207*
	2652

Other Information:

(1) The company redeemed preference shares at a premium of 10% on 1st April,2021.

(2) It also offered to buy back the maximum permissible number of equity shares of ₹ 10 each at ₹ 30 per share on 2nd April 2021.

(3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.

(4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹ 75 lakhs). These debentures were cancelled on 2nd April 2021.

(5) On 4th April 2021 company issued one fully paid-up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to:

(a) Calculate maximum possible number of equity shares that can be bought back as per the Companies Act, 2013 and

(b) Record the Journal Entries for the above-mentioned information.

(b) From the following information, you are required to prepare Profit and Loss Account of Popular Bank for the year ended 31st March 2021.

Particulars	***₹***
Interest on cash credit	*13,65,000*
Interest on overdraft	*5,62,500*
Interest on term loans	*11,55,000*
Income on investments	*6,30,000*
Interest on balance with RBI	*1,12,500*

Commission on remittances and transfer	*56,250*
Commission on letters of credit	*88,500*
Commission on government business	*61,500*
Profit on sale of land and building	*20,250*
Loss on exchange transactions	*39,000*
Interest paid on deposit	*20,40,000*
Auditor's fees and allowances	*90,000*
Directors's fees and allowances	*1,87,500*
Advertisements	*1,35,000*
Salaries, allowances and bonus to employees	*9,30,000*
Payment to Provident Fund	*2,10,000*
Printing and stationery	*1,05,000*
Repairs and maintenance	*37,500*
Postage, telegrams, telephones	*60,000*

Other information:

(i) Interest on NPA is as follows:

	Earned (₹)	**Collected (₹)**
Cash credit	*6,15,000*	*3,00,000*
Overdraft	*3,37,500*	*75,000*
Term loans	*5,62,500*	*1,87,500*

(ii) Classification of Non-Performing Advances:

	₹
Standard	*22,50,000*
Sub-standard	*8,40,000*
Doubtful assets not covered by security	*1,50,000*
Doubtful assets covered by security for one year	*37,500*
Loss Assets	*1,50,000*

(iii) Investment *₹ 20,62,500*

Bank should not keep more than 25% of its investment as 'Held-to Maturity'.

The market value of its rest 75% investment is ₹ 14,81,250 as on 31st March, 2021.

(10 +10 = 20 Marks)

Answer

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

Number of shares (in lakhs)

Particulars	When loan fund is ₹ 304 lakhs•
Shares Outstanding Test (W.N.1)	19.5
Resources Test (W.N.2)	11.175
Debt Equity Ratio Test (W.N.3)	29.725
Maximum number of shares that can be bought back [least of the above]	11.175

Thus, the company can buy 11,17,500 Equity shares at ₹ 30 each.

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in lakh)**
Number of shares outstanding	78
25% of the shares outstanding	19.5

2. Resources Test

Particulars	
Paid up capital (₹ in lakh)	780
Free reserves (₹ in lakh) (625+52+148-24-240*)	561
Shareholders' funds (₹ in lakh)	1341
25% of Shareholders fund (₹ in lakh)	335.25
Buy-back price per share	30
Number of shares that can be bought back	11.175
**Amount transferred to CRR is excluded from free reserves. Premium on redemption also reduced.*	

• *Loan funds have been taken without considering current liabilities. Alternatively, If current liabilities are considered, then the maximum number of shares that can be bought back as per debt equity ratio test will be 24.7875 lakhs.*

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

	Particulars	₹ In lakh
(a)	Loan funds (₹)	304
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	152
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1043.75 (1341-297.25)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	891.75
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	29.725
	As per the provisions of the Companies Act, 2013, company	Qualifies

Alternatively, when current liabilities are considered as part of loan funds, in that case Debt Equity Ratio Test will be done as follows:

	Particulars	₹ in lakh
(a)	Loan funds (₹)	699
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	349.5
(c)	Present equity shareholders fund (₹)	1341
(d)	Future equity shareholders fund (₹) (see W.N.4)	1093.125 (1341-247.875)
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	743.625
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	24.7875
	As per the provisions of the Companies Act, 2013, company	Qualifies

4. **Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method**

Suppose amount transferred to CRR account is ‘x’ and maximum permitted buy-back of equity is ‘y’ Then

Equation 1: (Present Equity- Transfer to CRR) - Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 152 = y

= 1189 – x =y (1)

Equation 2: Maximum Permitted Buy-Back x Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get

x = ₹ 297.25 and y = ₹ 891.75

Alternatively, when current liabilities are considered as part of loan funds, in that case

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

= (1341 – x) – 349.5 = y

= 991.5 – x =y (1)

Equation 2: Maximum Permitted Buy-Back *X* Nominal Value Per Share/Offer Price Per Share

y/30 x 10 = x or 3x = y (2)

by solving the above two equations we get x = 247.875 and y = 743.625

(ii) **Journal Entries for Buy Back** ***(₹ in lakhs)***

Date	Particulars		Debit	Credit
2021				
1st April	6% Redeemable preference share capital A/c	Dr.	240	
	Premium on redemption of preference shares A/c	Dr.	24	
	To Preference shareholders A/c			264
	(Being preference share capital transferred to shareholders account)			
	Preference shareholders A/c	Dr.	264	
	To Bank A/c			264
	(Being payment made to shareholders)			
	General Reserve or P&L A/c*	Dr.	24	

	To Premium on redemption of preference shares A/c			24
	(Being premium on redemption of preference shares adjusted through securities premium)			
2nd April	Equity shares buy-back A/c	Dr.	335.25	
	To Bank A/c			335.25
	(Being 11.175 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
	Equity share capital A/c	Dr.	111.75	
	Securities Premium A/c	Dr.	52	
	General Reserve or P&L A/c	Dr.	171.50	
	To Equity Shares buy-back A/c			335.25
	(Being cancellation of shares bought back)			
	General reserve A/c	Dr.	351.75	
	To Capital redemption reserve A/c			351.75
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law ie. 240+ 111.75 lakhs)			
2nd April	7% Debentures A/c	Dr.	75	
	To Investment (own debentures) A/c			60
	To Profit on cancellation of own debentures A/c			15
	(Being cancellation of own debentures costing ₹ 60 lakhs, face value being ₹ 75 lakhs and the balance being profit on cancellation of debentures)			
4th April	Capital Redemption Reserve	Dr.	133.65	
	To Bonus Shares A/c			133.65
	(Being issue of one bonus equity share for every five equity shares held)			
	Bonus shares A/c	Dr.	133.65	
	To Equity share capital A/c			133.65
	(Being bonus shares issued)			

Working Note: Bonus Share to be issued =66.825 (78 - 11.175) lakh shares divided by 5 = 13.365 lakh shares.

Note: *Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and complies with the Accounting Standards prescribed for them. Alternative entry considering otherwise is also possible by utilizing securities premium amount.

(b) Popular Bank

Profit and Loss Account

For the year ended 31st March, 2021

	Particulars	Schedule	*Year ended 31-3-2021 (₹)*
I	Income		
	Interest earned	13	28,72,500
	Other income	14	1,87,500
			30,60,000
II	Expenditure		
	Interest expended	15	20,40,000
	Operating expenses	16	17,55,000
	Provisions and Contingencies (W.N)		5,10,000
			43,05,000
III	Profit/Loss		(12,45,000)
IV	Appropriations		Nil

Schedule 13 - Interest Earned

		Year ended 31-3-2021 (₹)	
I	Interest/discount on advances/bills		
	Interest on cash credit ₹ (13,65,000-3,15,000)	10,50,000	
	Interest on overdraft ₹ (5,62,500-2,62,500)	3,00,000	
	Interest on term loans ₹ (11,55,000-3,75,000)	7,80,000	21,30,000
II	Income on investments		6,30,000
III	Interest on Balance with RBI		1,12,500
			28,72,500

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

Schedule 14 - Other Income

		Year ended 31-3-2021 (₹)	
I	Commission, Exchange and Brokerage		
	Commission on remittances and transfer	56,250	
	Commission on letter of credit	88,500	
	Commission on Government business	61,500	2,06,250
II	Profit on sale of Land and Building		20,250
III	Loss on Exchange Transactions		(39,000)
			1,87,500

Schedule 15 - Interest Expended

		Year ended 31-3-2021 (₹)
I	Interest on Deposits	20,40,000

Schedule 16 - Operating Expenses

		Year ended 31-3-2021 (₹)	
I	Payment and provision for employees		
	Salaries, allowances and bonus	9,30,000	
	Provident Fund Contribution	2,10,000	11,40,000
II	Printing and Stationery		1,05,000
III	Advertisement and publicity		1,35,000
IV	Directors' fees and allowances		1,87,500
V	Auditors' fees and expenses		90,000
VI	Postage, telegrams, telephones etc.		60,000
VII	Repairs and maintenance		37,500
			17,55,000

Working Note:

Provisions and contingencies			(₹)
Provision for NPA:			
Standard	22,50,000 × 0.40%		9,000
Sub-standard	8,40,000 × 15%*		1,26,000

* *It is assumed that sub-standard asset is fully secured.*

Doubtful not covered by security	1,50,000 × 100%		1,50,000
Doubtful covered by security for one year	37,500 × 25%		9,375
Loss Assets	1,50,000 × 100%		1,50,000
			4,44,375
Depreciation on current investments			
Cost (75% of 20,62,500)		15,46,875	
Less: Market value		(14,81,250)	65,625
			5,10,000

Note: 25% of the total investments are held to maturity. In the case of Held to Maturity investments the valuation is done at cost and these are not marked to market value generally. Hence, depreciation on investments has been calculated only on other investments which can either be Held for Trading (HFT) or Available for Sale (AFS).

Question 6

*Answer any **four** of the following:*

(a) *A liquidator is entitled to receive remuneration at 3% on the assets realized and 4% on the payment made to creditors and company's bankers. The assets were realized for ₹ 80,00,000. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 1,00,00,000. The company owes following amounts to others:*

Due to workers	*₹ 25,00,000*
Other Preferential creditors	*₹ 20,00,000*
Unsecured creditors	*₹ 10,50,000*

With reference to the provisions of the Companies Act 2013, you are required to calculate the amount payable to:

1 *Workers;*

2. *Other Preferential creditors;*

3. *Unsecured creditors;*

4. *Liquidator for remuneration and*

5. *Company's bankers.*

(b) *P, Q, R and S hold equity share capital in the proportion of 10:40:20:30. K, L, M and N hold preference share capital in the proportion of 20:10:40:30. If the paid up equity share capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find their voting rights in case of resolution of winding up of the company.*

(c) *A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost of ₹ 2,25,000. Economic life of the machine is 5 years and output from the machine is estimated as 60,000 units, 75,000 units, 90,000 units, 1,20,000 units and 1,05,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. You are required to compute the following as per AS-19.*

(i) *Annual Lease Rent*

(ii) *Lease Rent income to be recognized in each operating year and*

(iii) *Depreciation for 3 years lease*

(d) *"At the time calculating diluted earnings per share, effect is given to all dilutive potential equity shares that are outstanding during the period". Comment and also calculate the basic and diluted earnings per share for the year 2020-21 from the following information:*

(i)	*Net profit after tax for the year*	*₹ 64,12,500*
(ii)	*No. of equity shares outstanding*	*15,00,000*
(iii)	*No. of 9% convertible debentures of ₹ 100 issued on 1st July,2020*	*75,000*
(iv)	*Each debenture is convertible into 8 Equity Shares*	
(v)	*Tax relating to interest expenses*	*35%*

(e) *A company grants 2,000 Employees Stock Options on 1st April 2018 at ₹ 60• when the market price is ₹ 170. The vesting period is 2.5 years, and the maximum exercise period is 1 year. 600 unvested options lapse on 01.05.2020, 1200 options are exercised on 30.06.2021. 200 vested options lapse at the end of the exercise period. You required to pass necessary journal entries with narrations.* ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) Section 326 of the Companies Act, 2013 is talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari-passu charge in favour of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized* x Workman's Dues}}{\text{Workman's Dues + Secured Loan}}$$

Workmen share to secured assets = ₹ 80,00,000 x (25,00,000/125,00,000) = ₹ 80,00,000 x 1/5 i.e. ₹ 16,00,000

• *Face value ₹ 10.*

Amount available to secured creditor is ₹ 80,00,000 – ₹ 16,00,000 = ₹ 64,00,000

Amount payable to workers ₹ 16,00,000. Amount payable to Company's bankers = ₹ 64,00,000.

Hence, no amount is available for payment of other preferential creditors and unsecured creditors.

Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
3% on Assets realized	(80,00,000 x 3%)	2,40,000
4% on payment made to company's Banker (Refer W.N)		2,36,923
Total Remuneration payable to Liquidator		4,76,923

Working Note:

Liquidator's remuneration on payment to Company's banker:

Cash available after liquidator remuneration on assets realized

= ₹ 80,00,000 – ₹ 16,00,000 - 2,40,000= ₹ 61,60,000 X4/104= ₹ 2,36,923

Thus,

1. Amount payable to workers ₹ 16,00,000.
2. No amount is available for payment of other preferential creditors
3. No amount is available for payment of unsecured creditors.
4. Liquidator for remuneration ₹ 4,76,923
5. Amount payable to Company's bankers = ₹ 59,23,077 (₹ 61,60,000 less ₹ 2,36,923).

Note: The answer given above assumes that the workers are given the full amount due towards them without any deduction for Liquidators' remuneration and amount realized from sale of asset has been considered before Liquidator's remuneration. Accordingly, liquidator's remuneration has been considered for payment to banker only in the given answer. Hence, 4% remuneration has not been provided on the payment to workers as the question states that the liquidator is entitled to receive remuneration at 4% on payment made to banker and creditors. Moreover, workers are not considered as creditors in the given answer.

Alternative answer is possible when Liquidators' remuneration for asset realization is considered for payment to Workmen. In this case, two alternative answers will be possible which can be given as follows:

Alternative 1 -If Workmen are not treated as creditors for the purpose of Liquidator's remuneration (as the question states that the liquidator is entitled to receive remuneration at 4% on payment made to banker and creditors)

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized X Workman's Dues}}{\text{Workman's Dues + Secured Loan}}$$

Workmen share to secured assets = ₹ 80,00,000x (25,00,000/125,00,000) = ₹ 80,00,000x1/5 i.e. ₹ 16,00,000

Banker's share to secured assets is ₹ 80,00,000 – 16,00,000 = 64,00,000

Thus the ratio of workmen share and bankers share is 1:4. (64,00,000/16,00,000)

Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
3% on Assets realized	(80,00,000 x 3%)	2,40,000
4% on payment made to company's Banker (Refer W.N)		2,38,769
Total Remuneration payable to Liquidator		4,78,769

Working Note:

Liquidator's remuneration on payment to Company's banker

Cash available after liquidator remuneration on assets realized

= ₹ 80,00,000 – ₹ 2,40,000 = ₹ 77,60,000 which will be paid to workers and Company's banker in ratio of 1:4.

Cash balance is available Company's banker = ₹ 77,60,000 less ₹ 15,52,000 = 62,08,000 x 4/104= ₹ 2,38,769.

Thus,

1. Amount payable to workers ₹ 15,52,000 (77,60,000 x 1/5).
2. No amount is available for payment of other preferential creditors
3. No amount is available for payment of unsecured creditors.
4. Liquidator for remuneration ₹ 4,78,769
5. Amount payable to Company's bankers = ₹ 59,69,231 (62,08,000 less 2,38,769).

Alternative 2 - If Workmen are treated as creditors for the purpose of Liquidator's remuneration

Ratio of workmen share and bankers share is 1:4. (64,00,000/16,00,000) as computed in Alternative 1 above.

Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
3% on Assets realized	(80,00,000 x 3%)	2,40,000
4% on payment made to company's Banker (Refer W.N)		2,98,462
Total Remuneration payable to Liquidator		5,38,462

Working Note:

Liquidator's remuneration on payment to Company's banker and workmen:

Cash available after liquidator remuneration on assets realized

= ₹ 80,00,000 – ₹ 2,40,000 = ₹ 77,60,000

Liquidator remuneration = ₹ 77,60,000 X 4/104 = ₹ 2,98,462 (rounded off)

Cash balance is available for workers and Company's banker = ₹ 77,60,000 less ₹ 2,98,462 = ₹ 74,61,538.

The amount of ₹ 74,61,538 will be paid to workers and Company's banker in ratio of 1:4. Thus

1. Amount payable to workers ₹ 14,92,308 (rounded off) (74,61,538 x 1/5).
2. No amount is available for payment of other preferential creditors
3. No amount is available for payment of unsecured creditors.
4. Liquidator for remuneration ₹ 5,38,462
5. Amount payable to Company's bankers = ₹ 59,69,230 (rounded off) (74,61,538 x 4/5).

(b) P, Q, R and S hold Equity capital is held by in the proportion of 10:40:20:30 and K, L, M and N hold preference share capital in the proportion of 20:10:40:30. As the paid up equity share capital of the company is ₹ 60 Lakhs and Preference share capital is ₹ 30 Lakh (2:1), then relative weights 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

P = 2/3X10/100 = 1/15

Q = 2/3X40/100 = 4/15

R = 2/3X20/100 = 2/15

S = 2/3X30/100 = 3/15

K = 1/3X20/100 = 1/15

L = 1/3X10/100 = 1/30

M = 1/3X40/100 = 2/15

N = 1/3X30/100 = 1/10

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

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

(c) (i) Annual lease rent

Total lease rent

= 130% of ₹ 2,25,000 × Output during lease period/ Total output

= 130% of ₹ 2,25,000 x (60,000 +75,000+ 90,000)/(60,000 + 75,000 + 90,000 + 1,20,000 + 1,05,000)

= 2,92,500 x 2,25,000 units/4,50,000 units = ₹ 1,46,250

Annual lease rent = ₹ 1,46,250 / 3 = ₹ 48,750

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

Total lease rent should be recognized as income in proportion of output during lease period, i.e. in the proportion of 60,000 : 75,000 : 90,000 or 4:5:6

Hence income recognized in years 1, 2 and 3 will be as:

Year 1 ₹ 39,000,

Year 2 ₹ 48,750 and

Year 3 ₹ 58,500.

(iii) Depreciation for three years of lease

Since depreciation in proportion of output is considered appropriate, the depreciable amount ₹ 2,25,000 should be allocated over useful life 5 years in proportion of output, i.e. in proportion of 60 :75: 90 : 120 : 105 .

Depreciation for year 1 is ₹ 30,000, year 2 = 37,500 and year 3 = 45,000.

(d) In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period." As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding* during the period should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

Basic EPS for the year 2020-21= 64,12,500/15,00,000 = ₹ 4.275 or ₹ 4.28

Computation of diluted earnings per share for year 2020-21

$$\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$$

Adjusted net profit for the current year will be (64,12,500 + 5,06,250 – 1,77,188) = ₹ 67,41,562

No. of equity shares resulting from conversion of debentures:

6,00,000 Shares (75,000 × 8)

Weighted average no. of equity shares used to compute diluted EPS:

(15,00,000 X12/12+ 6,00,000X9/12)

= 19,50,000 Shares

Diluted earnings per share: (67,41,562/19,50,000) = ₹ 3.46

Working Note:

Interest expense for 9 months = 75,00,000×9%×9/12 =₹ 5,06,250

Tax expense 35 % on interest is ₹1,77,188 (5,06,250 x 35%)

(e) Journal Entries in the books of Company

Date	***Particulars***		***Dr. (₹)***	***Cr. (₹)***
31.3.2019	Employees compensation expense account	Dr.	88,000	
	To Employee stock option outstanding account			88,000
	(Being compensation expenses recognized in respect of the employee stock option			
	Profit and loss account	Dr.	88,000	
	To Employees compensation expenses account			88,000
	(Being expenses transferred to profit and loss account at year end)			

*Weighted average number of equity shares outstanding during the period is increased by the weighted average number of additional equity shares which would have been outstanding assuming the conversion of all dilutive potential equity shares.

31.3.2020	Employees compensation expenses account	Dr.	88,000	
	To Employee stock option outstanding account			88,000
	(Being compensation expense recognized in respect of the employee stock)			
	Profit and loss account	Dr.	88,000	
	To Employees compensation expenses account			88,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2021	Employee stock option outstanding account (W.N.2)	Dr.	22,000	
	To General Reserve account (W.N.2)			22,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2021	Bank A/c (1,200 × ₹ 60)	Dr.	72,000	
	Employee stock option outstanding account (1,200 × ₹ 110)	Dr.	1,32,000	
	To Equity share capital account (1,200 × ₹ 10)			12,000
	To Securities premium account (1,200 x ₹ 160)			1,92,000
	(Being 1,200 employee stock option exercised at an exercise price of ₹ 60 each)			
01.10.2021	Employee stock option outstanding account (W.N.3)	Dr.	22,000	
	To General reserve account (W.N.3)			22,000
	(Being ESOS outstanding A/c on lapse of 200 options at the end of exercise of option period transferred to General Reserve A/c)			

Working Notes:

1 Compensation expenses recognized in respect of the employee stock option:

2,000 options granted to employees at a discount of ₹ 110 each to be amortized on Straight line basis over $2\frac{1}{2}$ years i.e.

2,000 stock options x ₹ 110 / 2.5 years = ₹ 88,000

2. On 31.3.2021, company will examine its actual forfeitures and make necessary adjustments, if any, to reflect expenses for the number of options that actually vested. Considering that 1400 stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

No. of options actually vested 1,400 x 110 (170 – 60 = 110)	₹ 1,54,000
Less: Expenses recognized ₹ (88,000 + 88,000)	(₹ 1,76,000)
Excess expense transferred to general reserve	₹ 22,000

3. Similarly, on 1.10.2021, Employee Stock Option Outstanding Account will be

No. of options actually vested (1,200 x 110)	₹ 1,32,000
Less: Expenses recognized	(₹ 1,54,000)
Excess expense transferred to general reserve	₹ 22,000