MOCK TEST PAPER 1

INTERMEDIATE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a) (i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2020.

(ii) As per AS 18, transactions of company with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

(b) As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished. In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is published and hence revenue is recognized on that date. In this case, 15.03.2020 is the date of publication of the magazine. Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2020. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Since, the revenue of ₹ 3,00,000 will be recognised in the March, 2020, ₹ 60,000 will be treated as amount due from advertisers as on 31.03.2020 and ₹ 2,40,000 will be treated as payment received against the sale. However, if the publication is delayed till 02.04.2020 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized in the year ended 31.03.2020 after the magazine is published on 02.04.2020. The amount received from sale of advertising space on 10.03.2020 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2020.

(c)

(i)	**Loss for the year ended, 31st March, 2021**	*(₹ in lakhs)*
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

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

Loss for the year ended, 31st March, 2021 amounting ₹ 4,250 will be recognized.

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

(iii) Proportion of total contract value recognised as revenue

Cost incurred till 31.3.21 is 46.15% (7,500/16,250 × 100) of total costs of construction.

Proportion of total contract value recognised as revenue:

46.15% of ₹ 12,000 lakhs = ₹ 5,538 lakhs

(iv) Amount due from/to customers at year end

(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= [(7,500 + Nil – 4,250) – (5,500 + 1,500)] ₹ in lakhs = [3,250 – 7,000] ₹ in lakhs

Amount due to customers = ₹ 3,750 lakhs

(d) The entity amortised ₹ 48,00,000 per annum for the first two years i.e. ₹ 96,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows (₹)	Amortization Ratio	Amortization Amount (₹)
I	-	0.20	48,00,000
II	-	0.20	48,00,000
III	36,00,000	0.180	25,92,000
IV	46,00,000	0.230	33,12,000
V	44,00,000	0.220	31,68,000
VI	40,00,000	0.200	28,80,000
VII	34,00,000	0.170	24,48,000
Total	2,00,00,000	1.000	2,40,00,000

It may be seen from above that from third year onwards, the balance of carrying amount ₹ 1,44,00,000 has been amortized in the ratio of net cash flows arising from the product.

2. (a) Statement showing distribution of cash amongst the partners

	Creditors	*B's Loan*	*A*	*B*	*C*
2020	₹	₹	₹	₹	₹
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realization A/c	1,000				
	Nil				

August 30					
2nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised ₹ 80,000					
Add: Balance out of the Provision for Expenses A/c 1,400					
81,400			32,560	32,560	16,280
Amount unpaid being loss on Realization in the ratio of 2 : 2 : 1			10,800	10,800	5,400

Working Notes:

1. **Highest relative capital basis**

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	38,000	24,000	36,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. **Distribution of Second instalment**

	Creditors	A	B	C
First ₹ 8,400	8,400	-	-	-
Next ₹ 4,000 (2 : 0 : 0)		4,000	-	-
Next ₹ 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance ₹ 11,600 (2 : 2 : 1)		4,640	4,640	2,320
60,000	8,400	32,640	4,640	14,320

(b) Garner vs. Murray rule: When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

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 insolvent partner.

4. When all the partners of the firm are insolvent.

(c) This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2020, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2020, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2020.

3. (a) (i) **In the Books of Beta Ltd.**

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(ii) In the Books of Alex Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	
To 8% Preference Share Capital A/c			3,08,000
To Equity Share Capital A/c			11,20,000
To Securities Premium A/c			56,000
(Being Purchase Consideration satisfied as above).			

(iii) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		55,65,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment (PPE)	3	31,08,000
	B	Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		55,65,000

Notes to accounts:

		₹
1	**Share Capital**	
	Equity share capital	
	3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000
	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	45,08,000
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	2,52,000
3	**PPE**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	31,08,000

Working Notes:

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

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

4. (a) In the books of Alpha Limited

Journal Entries

Date	*Particulars*		*Dr.*	*Cr.*
2021			*(₹ in lakhs)*	
April 1	Bank A/c	Dr.	150	

	To Investment A/c		148
	To Profit on sale of investment		2
	(Being investment sold on profit)		
April 10	Equity share capital A/c Dr.	600	
	Securities premium A/c Dr.	300	
	To Equity shares buy back A/c		900
	(Being the amount due to equity shareholders on buy back)		
	Equity shares buy back A/c Dr.	900	
	To Bank A/c		900
	(Being the payment made on account of buy back of ₹ 60 Lakh Equity Shares)		
April 10	General reserve A/c Dr.	530	
	Profit and Loss A/c Dr.	70	
	To Capital redemption reserve (CRR) A/c		600
	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)		
April 30	Capital redemption reserve A/c Dr.	450	
	To Bonus shares A/c (W.N.1)		450
	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c Dr.	450	
	To Equity share capital A/c		450
	(Being issue of one bonus equity share for every four equity shares held)		
	Profit on sale of Investment Dr.	2	
	To Profit and Loss A/c		2
	(Profit on sale transfer to Profit and Loss A/c)		

Note: For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of ₹ 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating ₹ 600 lakhs may also be considered for the purpose of transfer to CRR.

Balance Sheet (After buy back and issue of bonus shares)

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250

(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
Total		6,502
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
Total		6,502

Notes to Accounts

				₹ In lakhs
1.	Share Capital			
	Equity share capital (225 lakh fully paid up shares of ₹ 10 each)			2,250
2.	Reserves and Surplus			
	General Reserve	530		
	Less: Transfer to CRR	(530)	-	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Add: Transfer due to buy-back of shares from Gen. res.	530		
	Less: Utilisation for issue of bonus shares	(450)	550	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	872

Working Notes:

1. **Amount of equity share capital** = 2,400 - 600 (buyback) + 450 (Bonus shares)
= 2,250

2. **Cash at bank after issue of bonus shares**

	₹ in lakhs
Cash balance as on 1st April, 2021	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

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

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

(c)

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

			sanctioned drawing power for a continuous period of 90 days.	
	NPA	**NPA**	**NPA**	**NOT NPA**

5. (a) Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2021

Particulars	*Note No.*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	

	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2020

	₹
Machinery	
Revaluation as on 1.4.2020	3,00,000
Less: Book value as on 1.4.2020	(2,00,000)
Profit on revaluation	1,00,000

Furniture	
Revaluation as on 1.4.2020	30,000
Less: Book value as on 1.4.2020	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

	Machinery	***Furniture***
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2021

	Pre-acquisition profit upto 1.4.2020	*Post-acquisition profits (1.4.2020 – 31.3.2021)*	
	(Capital profits)	***General Reserve***	***Profit and loss account***
General reserve as on 31.3.2021	50,000	1,05,000	
Profit and loss account as on 31.3.2021	30,000		35,000
Upward Revaluation of machinery as on 1.4.2020	1,00,000		
Downward Revaluation of Furniture as on 1.4.2020	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

(b) In the books of Preeti Limited

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c	Dr.	3,00,000	
	Interest payable A/c (proportionate 50%)	Dr.	45,000	
	To Reconstruction A/c			3,45,000
	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	1,04,000	
	To Reconstruction A/c			1,04,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	11,71,000	
	To Profit & Loss A/c			11,60,000

	To Capital Reserve A/c (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)		11,000

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

6. **(a)** Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21{,}96{,}000}{4{,}57{,}500 \text{ Shares (as per working note)}} = ₹\ 4.80 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	*No. of equity shares*	*Amount paid per share*	*Weighted average no. of equity shares*
	₹	₹	₹
1.4.2020	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2020	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2020	60,000	5	60,000 x 5/10 x 7/12 = 17,500
Total weighted average equity shares			4,57,500

(b) **(i)** **Non-adjusting event:** Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 20th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statement and will be a non-adjusting event.

(ii) **Adjusting event:** In the given case, terms and conditions for acquisition of business were finalised before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2020. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2020.

(iii) **Non-adjusting event:** Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.

In the given case, as the theft of cash was detected on 16th July, 2020 ie after approval of financial statements, no adjustment is required.

(iv) Non-adjusting event: 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. In the given case, sale of immovable property was under proposal stage (negotiations only started) on the balance sheet date, and was not finalized. Therefore, adjustment to assets for sale of immovable property is not necessary in the financial statements for the year ended 31st March, 2020. Disclosure may be given in Report of approving Authority.

(v) Non-adjusting event: 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 condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding fire and loss, being completely insured may be given in the report of approving authority.

OR

As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision. It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

(c) Amount receivable from/returnable to Equity Shareholders

Total equity capital - paid up	₹ 1,48,000
Less: Balance available after payment to unsecured and preference shares	
(3,50,000 — 2,42,500)	₹ (1,07,500)
Loss to be born by 2,000 equity shares	₹ 40,500
Loss per share	₹ 20.25
Hence,	
Amount refunded on ₹ 65 paid share	65 - 20.25 per share = ₹ 44.75
Amount refunded on ₹ 80 paid share	80 - 20.25 per share= ₹ 59.75

Working note:

Liquidator's Statement of Account

	₹			₹
To Assets realized	3,50,000	By Liquidation Expenses		8,000
		By Secured bank loan		60,000

		By Preferential creditors (salary of 3 clerks at ₹ 500 per month for three months)		4,500
		By Unsecured creditors		70,000
		By Preference Shareholders		1,00,000
				2,42,500
		By Equity Shareholders		
		₹ 59.75 on 1,200 shares		71,700
		₹ 44.75 on 800 shares		35,800
	3,50,000			3,50,000

(d) **Journal Entries in the books of Suvidhi Ltd.**

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.3.20	Bank A/c (60,000 shares x ₹ 30)	Dr.	18,00,000	
	Employees stock compensation expense A/c	Dr.	4,80,000	
	To Share Capital A/c (60,000 shares x ₹ 10)			6,00,000
	To Securities Premium (60,000 shares x ₹ 28)			16,80,000
	(Being shares issued under ESOP @ ₹ 30 to 1,200 employees)			
	Profit & Loss A/c	Dr.	4,80,000	
	To Employees stock compensation expense A/c			4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)			

Working Note:

Fair value of an option = ₹ 38 – ₹ 30 = ₹ 8

Number of shares issued = 1,200 employees x 50 shares = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2019-2020 = 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2019-2020 = ₹ 4,80,000