PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2018 EXAMINATION

A. Applicable for May, 2018 Examination

I. Applicability of the Companies Act, 2013 and other Legislative Amendments

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2017 will be applicable for May, 2018 Examination.

II. Maintenance of Statutory Liquidity Ratio (SLR)

Section 24 and Section 56 of the Banking Regulation Act, 1949 – Maintenance of SLR and holdings of SLR in HTM category

It has been decided to reduce the SLR requirement of banks from 20.0 per cent of their Net Demand and Time Liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017 as announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017. The related notification is DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 4, 2017.

Currently, the banks are permitted to exceed the limit of 25 per cent of the total investments under HTM category, provided the excess comprises of SLR securities and total SLR securities held under HTM category are not more than 20.5 per cent of NDTL. In order to align this ceiling on the SLR holdings under HTM category with the mandatory SLR, it has been decided to reduce the ceiling from 20.5 per cent to 19.5 per cent in a phased manner, i.e. 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, i.e., in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3 (ii) of the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

III. Maintenance of Cash Reserve Ratio (CRR)

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to ***4.00 per cent of their Net Demand and Time Liabilities (NDTL)*** with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001 /2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

B. <u>Not applicable for May, 2018 examination</u>

Non-Applicability of Ind AS for May, 2018 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2018 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Employee Stock Option Plans

1. PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 18 on the grant date and the exercise price is ₹ 55 per share. The other information is given as under:

   (i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.

   (ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

   *You are required to **calculate** ESOP cost to be amortized by PQ Ltd. in the years 2015-2016 and 2016-2017.*

Buy Back of Securities

2. Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016 :

Liabilities	Amount (₹)
Equity shares of ₹ 10 each, fully paid up	12,50,000
Bonus shares of ₹ 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to ***prepare*** *the necessary journal entries towards buy back of shares and* ***prepare*** *the Balance Sheet after buy back of shares.*

Equity Shares with Differential Rights

3. L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to ***identify*** *the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹ 40 Lakh.*

Underwriting of Shares and Debentures

4. Paper Limited comes out with a public issue of share capital on 01-01-2017 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2017) and ₹ 3 on allotment (31-3-2017) including premium.

   This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

   One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

   6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2017 and were re-allotted for payment in cash of ₹ 4 per share.

   *You are required to **prepare** each underwriter's liability (in shares) in statement form assuming that benefit of firm underwriting is given to individual underwriter and to **prepare** necessary journal entries to record the above events and transactions (including cash).*

Amalgamation of Companies

5. P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

   The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) ***Calculate*** *the number of shares issued to P Ltd. and Q Ltd; and*

(ii) ***Prepare*** *required journal entries in the books of PQ Ltd.; and*

(iii) ***Prepare*** *the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.*

Internal Reconstruction of a Company

6. M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

Liabilities	***Amount (₹)***	***Assets***	***Amount(₹)***
Share Capital		Land & Building	42,70,000
50,000 shares of ₹ 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹ 50		Inventories	3,20,000
each ₹ 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹ 100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹ 100 each	6,00,000		
Trade creditors	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.

(3) Trade creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. B agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

*You are required to **prepare** necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.*

Liquidation of a Company

7. The position of Careless Ltd. on its liquidation is as under:

5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to ***prepare*** *Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.*

Financial Statements of Insurance Companies

8 From the following information given by Long Live Insurance Co. Ltd., *you are required to* ***prepare*** *necessary Journal Entries (with narration and required working notes) relating to Unexpired Risk Reserve.*

(i) On 31.03.16, it had reserve for unexpired risks amounting to ₹ 80 crores. Its composition was as under:

(a) ₹ 30 crores in respect of Marine insurance business

(b) ₹ 40 crores in respect of Fire insurance business and

(c) ₹ 10 crores in respect of Miscellaneous insurance business

(ii) Long Live Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine insurance business and 50% of net premium income in respect of Fire and Miscellaneous income policies.

(iii) During 2016-17, the following business was conducted:

			₹ In crore
	Marine	**Fire**	**Miscellaneous**
Premium Collected from:			
(a) Insured in respect of Policies issued	36	86	24
(b) Other Insurance Companies in respect of risks undertaken	14	10	8
Premium paid/payable to other insurance Companies on Business ceded.	20	10	15

Financial Statements of Banking Companies

9. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000

Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

(i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2016 was ₹ 19,000 and on 31.3.2017 was ₹ 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide ₹ 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

Prepare *the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.*

NBFCs

10. While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	53,600
Sub-standard assets	2,680
Secured portions of doubtful debts:	
– Up to one year	640
– one year to three years	180
– more than three years	60
Unsecured portions of doubtful debts	194
Loss assets	96

***Calculate** the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.*

Mutual Funds

11. Amar has invested in two mutual funds. From the details given below, you are required to calculate effective yield on per annum basis in respect of each of the schemes to Amar up to 31.03.2017.

Mutual Fund	X	Y
Date of Investment	1-12-2016	1-1-2017
Amount of investment (₹)	2,00,000	4,00,000
NAV at the date of investment (₹)	10.50	10.00
Dividend received upto 31-3-2017 (₹)	3,800	6,000
NAV as on 31-3-2017 (₹)	10.40	10.10

Valuation of Goodwill

12. The following is the summarized Balance Sheet of Alpha Ltd. as at 31st March, 2017:

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Share Capital:		Fixed Assets:	
Equity shares of ₹ 10 each	200.00	Land and buildings	100.00
9% Preference share fully paid up	40.00	Plant and machinery	321.00
Reserve and Surplus:		Furniture and fixture	22.00
General reserve	48.00	Vehicles	20.00
Profit and Loss	121.60	Investments	40.00
Secured loans:		Inventory	27.00
10% Debentures	20.00	Trade Receivables	19.60
12% Term loan	72.00	Cash and bank	41.60
Trade Payables	64.00		
Provision for taxation	25.60		
	591.20		591.20

Non-trade investments were 20% of the total investments.

Balances as on 1.4.2016 to the following accounts were as: Profit and Loss account ₹ 43.20 lakhs, General reserve ₹ 46 lakhs.

Alpha Ltd. desires to value goodwill. For the purpose of valuation of goodwill, the company requires you to ***calculate average capital employed****.*

Consolidated Financial Statements

13. Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (*₹ in lacs*)	Sun Ltd. (*₹ in lacs*)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400
	12,000	2,400
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100
	4,800	1,400
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to Sun Ltd. of ₹ 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing ₹ 48 lacs. Administrative expenses of Sun Ltd. include ₹ 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include ₹ 20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of ₹ 2,000 lacs in Sun Ltd. prior to 2015-2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

You are required to ***prepare*** *a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.*

Guidance Notes

14. How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? **Explain.**

Accounting Standards

AS 7 Construction Contracts

15. (a) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are·given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹ 4 crores

.Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ***identify*** *the state of completion and* ***calculate*** *the revenue and profit to be recognized for the year as per AS 7.*

AS 9 Revenue Recognition

(b) A manufacturing company has the following stages of production and sale in manufacturing fine paper rolls:

Date	Activity	Cost to Date (₹)	Net Realizable Value (₹)
15.1.16	Raw Material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

***Explain** the stage on which you think revenue will be generated and **calculate** how much would be net profit for year ending 31.3.16 on this product as per AS 9.*

AS 18 Related Party Disclosures

16. (a) Is remuneration paid to Board of Directors a related party transaction? **Explain.**

AS 19 Leases

(b) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

*You are required to **calculate** the amount of the annual lease payment and the unearned finance income.* Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

AS 20 Earnings Per Share

17. The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax: ₹ 75,00,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹ 100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.

*You are required to **calculate** Basic and Diluted Earnings Per Share (EPS).*

AS 24 Discontinuing Operations

18. A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	*Clothes washing Bar (Per month)*
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.

*You required to **advise** the company whether it should be treated as discontinuing operation or not as per AS 24?*

AS 26 Intangible Assets

19. K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

    *You are required to **advise** the Company as per the applicable Accounting Standard.*

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier.

    *You are required to **examine** in line with the provisions of AS 29.*

ANSWERS

1. Calculation of ESOP cost to be amortized

	2015-2016	*2016-2017*
Fair value of options per share	₹ 18	₹ 18
No. of options expected to vest under the scheme	93,000 (930 x 100)	88,000 (880 x 100)
Fair value of options	₹ 16,74,000	₹ 15,84,000
Value of options recognized as expenses	(₹ 16,74,000 / 2) 8,37,000	(₹ 15,84,000 – ₹ 8,37,000) 7,47,000

2. As per the information given in the question, buy-back of 25,000 shares @ ₹ 20 , as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

			Debit (₹)	*Credit (₹)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000

	(Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of Complicated Ltd.
as on 1st April, 2016

Particulars	*Note No*	*Amount* ₹
EQUITY AND LIABILITIES		
1 **Shareholders' funds**		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 **Non-current liabilities**		
(a) Long-term borrowings	3	28,75,000
3 **Current liabilities**		
(a) Other current liabilities	4	19,50,000
Total		81,50,000
ASSETS		
1 **Non-current assets**		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		35,00,000
Total		81,50,000

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	1,10,000 Equity shares of ₹10 each		11,00,000

2.	Reserves and Surplus			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilization for share buy-back	(2,50,000)	-	
	Share Option Outstanding Account		4,00,000	
	Capital Reserve		2,00,000	
	Capital Redemption Reserve		2,50,000	22,25,000
3.	Long-term borrowings			
	Secured			
	12% Debentures		18,75,000	
	Unsecured loans		10,00,000	28,75,000
4.	Other Current Liabilities			
	Current maturities of long term borrowings		16,50,000	
	Unpaid dividend		1,00,000	
	Application money received for allotment due for refund		2,00,000	19,50,000

3. L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 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

L = 2/3X30/100 = 3/15

M = 2/3X30/100 = 3/15

N = 2/3X20/100 = 2/15

O = 2/3X20/100 = 2/15

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

Y = 1/3X30/100 = 1/10

Z = 1/3X20/100 = 1/15

K = 1/3X10/100 = 1/30

4. Statement showing liability of underwriters

	Particulars	*Basis*	*White*	*Black*
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000

B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Journal Entries

2017				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ ₹ 2.50 per share on 28,80,000 shares)			
March 31	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			
March 31	Equity Share Allotment A/c (28,80,000 x ₹ 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000x ₹ 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x ₹ 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Black (1,20,000 x ₹ 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x ₹ 5)			6,00,000
	To Securities Premium A/c (1,20,000 x ₹ 0.5)			60,000

	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March 31	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3]			86,22,000
	To Black (1,20,000 x ₹ 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March 31	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of ₹ 10.50 for ₹30 lakh shares payable to underwriters)			
March 31	Black A/c		6,30,000	
	White A/c		6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x ₹ 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x ₹ 5)			30,000
	(Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

5. (i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	₹
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]
= ₹ 8,64,000 or 86,400 shares

Securities premium = ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000

Premium per share = ₹ 12,96,000 / ₹ 86,400 = ₹ 15

Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share

Share of Q Ltd. = ₹ 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]
= ₹ 5,76,000 or 57,600 shares

Securities premium = ₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000

Premium per share = ₹ 8,64,000 / ₹ 57,600 = ₹ 15

Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share

(ii) Journal Entries in the books of PQ Ltd.

		Dr.	*Cr.*
Particulars		*Amount (₹)*	*Amount (₹)*
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	

Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000
To Securities premium (57,600 x ₹ 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	21,60,000
	b	Reserves and Surplus	2	32,40,000
2		Current liabilities		
	a	Trade payables (2,40,000 + 5,40,000)		7,80,000
		Total		61,80,000
		Assets		
1		Non-current assets		
	a	Fixed assets		

		Tangible assets (7,20,000 + 10,80,000)		18,00,000
		Intangible assets (goodwill)	4	5,40,000
2		Current assets		
	a	Inventories (3,60,000 + 6,60,000)		10,20,000
	b	Trade receivables (4,80,000 +7,80,000)		12,60,000
	c	Cash and cash equivalents	3	15,60,000
		Total		<u>61,80,000</u>

Notes to accounts

		₹
1	**Share Capital**	
	Issued, subscribed and paid up share capital	
	2,16,000 Equity shares of ₹10 each	21,60,000
	(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	
2	**Reserves and Surplus**	
	Securities premium	32,40,000
	(@₹15 for 2,16,000 shares)	
3	**Cash and cash equivalents**	
	Cash at Bank	15,60,000
4	**Intangible Assets**	
	Goodwill	5,40,000

Working Notes:

1. **Calculation of goodwill of P Ltd.**

Particulars	*Amount* ₹	*Weight*	*Weighted amount* ₹
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	<u>6,30,000</u>	3	<u>18,90,000</u>
Total (a+b+c)	<u>14,55,000</u>	6	<u>32,40,000</u>
weighted Average = [Total weighted amount/Total of weight] [₹ 32,40,000/6]			
Goodwill			5,40,000

2. **Calculation of Net assets**

	P Ltd. ₹	Q Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000

3. **New authorized capital**

= ₹ 14,40,000 + ₹ 12,00 000 = ₹ 26,40,000

4. **Cash and Cash equivalents**

	₹
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X ₹ 25)	18,00,000
	21,00,000
Less: Bank Overdraft	5,40,000
	15,60,000*

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

6. **Journal Entries**

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹ 50) A/c	Dr.	75,00,000	
To Equity share capital (₹ 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹ 40 each)			

Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	7,00,000	
To 15% Debentures A/c			5,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To 15% Debentures A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000

(Being value of assets appreciated)		
Outstanding expenses A/c Dr.	10,60,000	
To Bank A/c		10,60,000
(Being outstanding expenses paid in cash)		
Capital Reduction A/c Dr.	33,41,000	
To Machinery A/c		1,30,000
To Computers A/c		1,20,000
To Trade receivables A/c		1,09,000
To Profit and Loss A/c		29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)		
Capital Reserve A/c Dr.	5,00,000	
To Capital Reduction A/c		5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2017

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000
2		**Non-current liabilities**		
	a	Long-term borrowings	2	8,50,000
		Total		**88,50,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	3	63,04,000
2		**Current assets**		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		12,15,000
		Total		**88,50,000**

Notes to accounts

			₹
1.	**Share Capital**		
	2,00,000 Equity shares of ₹ 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. **Cash at Bank Account**

	Particulars	₹		*Particulars*	₹
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share capital A/c	10,00,000	By	Outstanding expenses A/c	10,60,000
To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	15% Debentures A/c	1,00,000			
		26,18,000			26,18,000

2. **Capital Reduction Account**

	Particulars	₹		*Particulars*	₹
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade payables A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	A A/c	2,00,000
To	Profit and Loss A/c	29,82,000	By	B A/c	50,000
			By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

7. Liquidator's Final Statement of Account

Receipts	₹	*Payments*	₹
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ ₹ 10 per share		Unsecured Creditors	99,000
(W.N.)		Preference Shareholders	3,00,000
	4,00,400		4,00,400

Working Notes:

	₹
(i) **Calculation of Shortage of funds**	
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹\,19{,}600 \times \frac{100}{100-2}$$

$$= \frac{₹19{,}600 \times 100}{98} = ₹\,20{,}000$$

(iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000

(iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share (20,000 /20)

(v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

8. In the books of Long Live Insurance Co. Ltd.

Journal Entries

Date	*Particulars*		*(₹ in crores)*	
			Dr.	*Cr.*
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	40.00	

	Unexpired Risk Reserve (Marine) A/c	Dr.	30.00	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	10.00	
	To Fire Revenue Account			40.00
	To Marine Revenue Account			30.00
	To Miscellaneous Revenue Account			10.00
	(Being unexpired risk reserve brought forward from last year)			
31.3.2017	Marine Revenue A/c	Dr.	30	
	To Unexpired Risk Reserve(Marine) A/c			30
	(Being closing reserve for unexpired risk created at 100% of net premium income for marine)			
	Fire Revenue A/c	Dr.	43	
	To Unexpired Risk Reserve(Fire) A/c			43
	(Being closing reserve for unexpired risk created at 50% of net premium income for Fire)			
	Miscellaneous Revenue A/c	Dr.	8.5	
	To Unexpired Risk Reserve(Misc.) A/c			8.5
	(Being closing reserve for unexpired risk created at 50% net premium income for Misc.)			

Working Note:

Calculation of Closing balance of Reserve for Unexpired Risks

	Marine	Fire	Misc.
Premium Collected from:			
a. Insured in respect of policies issued	36.00	86.00	24.00
b. Other insurance companies in respect of risks undertaken	14.00	10.00	8.00
Total (a+b)	50.00	96.00	32.00
Less: Premium paid/payable to other insurance companies on business ceded	20.00	10.00	15.00
	30.00	86.00	17.00
% of creation of unexpired Risk Reserve	100%	50%	50%
Amount of Closing Unexpired Risk Reserve	30.00	43.00	8.50

9. **TOP Bank Limited**

Profit and Loss Account for the year ended 31st March, 2017

		Schedule	Year ended 31.03.2017
			(₹ in '000s)
I.	**Income:**		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18
II.	**Expenditure**		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		2,070.00
	Total		6,098.38
IIII.	**Profits/Losses**		
	Net profit for the year		552.80
	Profit brought forward		nil
			552.80
IV.	**Appropriations**		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

		Year ended 31.3. 2017 (₹ in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5923.18
		5923.18
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	3259.92

	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	(25.00)
	5,923.18

10. Calculation of provision required on advances as on 31st March, 2017:

	Amount ₹ in lakhs	*Percentage of provision*	*Provision ₹ in lakhs*
Standard assets	53,600	.25	134.00
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts			
–up to one year	640	20	128.00
–one year to three years	180	30	54.00
–more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			904.00

11. Calculation of effective yield on per annum basis in respect of two mutual fund schemes up to 31.03.2017

		X	*Y*
1	Amount of Investment (₹)	2,00,000	4,00,000
2	Date of investment	1.12.2016	1.1.2017
3	NAV at the date of investment (₹)	10.50	10.00
4	No. of units on date of investment [1/3]	19,047.62	40,000
5	NAV per unit on 31.03.2017 (₹)	10.40	10.10
6	Total NAV of mutual fund investments on 31.03.2017 [4 x 5]	1,98,095.25	4,04,000
7	Increase/ decrease of NAV [6-1]	(1,904.75)	4,000
8	Dividend received up to 31.3.2017	3,800	6,000
9	Total yield [7+8]	1,895.25	10,000
10	Yield % [9/1] x 100	0.95%	2.5%
11	Number of days from date of investment	121	90
12	Effective yield p.a. [10/11] x 365 days	2.87%	10.14%

12. Computation of Average Capital employed

		(₹ in lakhs)
Total Assets as per Balance Sheet		591.20
Less: Non-trade investments (20% of ₹40 lakhs)		(8.00)
		583.20
Less: Outside Liabilities:		
10% Debentures	20.00	
12% Term Loan	72.00	
Trade Payables	64.00	
Provision for Taxation	25.60	(181.60)
Capital Employed as on 31.03.2017		401.60
Less: ½ of profit earned during the year:		
Increase in General Reserve balance	2.00	
Increase in Profit & Loss A/c	78.40	
	80.40 /2	40.20
Average capital employed		361.40

13. Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31st March, 2017

Particulars	*Note No.*	*₹ in Lacs*
I. Revenue from operations	1	11,730
II. Total revenue		11,730
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300
Depreciation and amortization expense	7	300
Other expenses	5	1,070
Total expenses		3,538
IV. Profit before Tax(II-III)		8,192
V. Tax Expenses	8	2,800
VI. Profit After Tax		5,392
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	300	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of ₹ 300 lacs	(240)	(2,460)
Profit to be transferred to consolidated balance sheet		2,932

Notes to Accounts

		₹ in Lacs	*₹ in Lacs*
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	

	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	(20)	11,730
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	
	Less: Unrealized profits ₹48 lacs × $\frac{20}{120}$	(8)	2,392
			14,122
3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	400	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	(240)	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	600
			2,360
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	300	1,900
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	

	Sun Ltd.	100	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	480
			1,070
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

14. In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

15. (a)

	₹ in crore
Cost of construction of bridge incurred 31.3.16	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10)×100 = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2016 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=₹ 12.60 crore x 40% =₹ 5.04 crore

Profit for the year ended 31st March, 2016 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

(b) According to AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Thus, sales will be recognized only when following two conditions are satisfied:

(i) The sale value is fixed and determinable.

(ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 15.3.2016 when sales are agreed upon at a price and goods are allocated for delivery purpose through invoice. The amount of net profit ₹ 1,50,000 (3,50,000 – 2,00,000) would be recognized in the books for the year ending 31st March, 2016.

16. (a) In case of a Company, the Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per Sec 2(76) of Companies Act, 2013, a related party includes a director or his relative. Sec 2(34) defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as related party transaction.

(b) (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.5– ₹ 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500
Add: Unguaranteed residual value	1,33,500
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.5+ ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

17. Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 75,00,000 / 10,00,000 = ₹ 7.50 per share

Computation of diluted earnings per share $\dfrac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	₹
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of ₹ 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= 80,60,000/ 11,10,000 = ₹ 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

18. As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a **single plan**, is:

(1) disposing of substantially in its entirety,

(2) disposing of piecemeal, or

(3) terminating through abandonment; and

(ii) that represents a separate **major line** of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

19. As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2017.

20. As per provisions of 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 recognized 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 recognized 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 can be said that the accounting treatment adopted by the company with respect to warranty is not correct.