Test Series: October, 2022

MOCK TEST PAPER –2

INTERMEDIATE: GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a) **Surya Ltd.**

Balance Sheet (Extract relating to intangible asset) as on 31st March 2021

	Note No.	₹
Assets		
(1) Non-current assets		
Intangible assets	1	14,00,000

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets		
	Goodwill (Refer to note 1)	5,00,000	
	Patents (Refer to Note 2)	5,25,000	
	Franchise (Refer to Note 3)	3,75,000	14,00,000

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	25,00,000
	Less: Fair value of net assets acquired	(18,75,000)
	Goodwill	6,25,000
	Less: Amortization. over 5 years (as per SLM)	(1,25,000)
	Balance to be shown in the balance sheet	5,00,000
(2)	Patent	6,00,000
	Less: Amortization (over 8 years as per SLM)	(75,000)
	Balance to be shown in the balance sheet	5,25,000
(3)	Franchise	4,50,000
	Less: Amortization (over 6 years)	(75,000)
	Balance to be shown in the balance sheet	3,75,000

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

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

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

Case (i)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of ₹ 50,000 for the year ended 31st March, 2021.

Case (ii)

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

Case (iii)

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

Thus total revenue amounting ₹ 2,50,000 (50,000 + 1,00,000 + 1,00,000) will be recognized for the year ended 31st March, 2021 in the books of B.S. Ltd.

(c) (i) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous transaction, will not be treated as change in an accounting policy.

(ii) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(iii) In the given case, company has created 2.5 % provision for doubtful debts till 31st March, 2020. Subsequently from 1st April, 2020, the company revised the estimates based on the changed circumstances and wants to create 5% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(iv) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(v) Change in useful life of computers from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(d) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2020 = ₹ 1,20,000 x .03 + ₹ 75,000 x .04

= ₹ 3,600 + ₹ 3,000 = ₹ 6,600

As at 31st March, 2021 = ₹ 75,000 x .03 + ₹ 2,70,000 x .04

= ₹ 2,250 + ₹ 10,800 = ₹ 13,050

Amount debited to Profit and Loss Account for year ended 31st March, 2021

	₹
Balance of provision required as on 31.03.2021	13,050
Less: Opening Balance as on 1.4.2020	(6,600)
Amount debited to profit and loss account	6,450

Note: No provision will be made on 31st March, 2021 in respect of sales amounting ₹ 1,20,000 made on 19th January, 2019 as the warranty period of 2 years has already expired.

2. Journal Entries in the books of A Ltd.

Particulars		*Debit* ₹	*Credit* ₹
Business purchase A/c (W.N.1)	Dr.	13,75,000	
To Liquidator of B Ltd.			13,75,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000
To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium A/c			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c			60,000

(Cancellation of mutual owing on account of bills of exchange)		

*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

Opening Balance Sheet of A Ltd. (after absorption)
as at 1st April, 2021

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
2	Non-current liabilities		
a	Long-term borrowings	3	8,60,000
3	Current liabilities		
a	Trade Payables	4	7,03,000
b	Other current liabilities	5	1,25,000
	Total		61,82,000
	Assets		
1	Non-current assets		
a	PPE	6	36,35,000
b	Investments	7	3,96,000
2	Current assets		
a	Inventories	8	10,50,000
b	Trade receivables	9	8,80,000
c	Cash and cash equivalents	10	2,21,000
	Total		61,82,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	2,00,000 Equity shares of ₹ 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
	Preference share capital		
	10,000 10% Preference shares of ₹ 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000
	Total		30,00,000
2	Reserves and Surplus		
	General Reserve		
	Opening balance	3,00,000	
	Add: Adjustment under scheme of amalgamation	95,000	

	Less: Amalgamation expense paid	(12,000)	3,83,000
	Securities premium (2,40,000+1,75,000)		4,15,000
	Export profit reserve		
	Opening balance	1,80,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
	Investment allowance reserve		60,000
	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	Total		14,94,000
3	Long-term borrowings		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
4	Trade payables		
	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	1,15,000
			7,03,000
5	Other current liabilities		
	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
6	PPE		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment- Opening balance	3,45,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	Total		36,35,000
7	Investments		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000
8	Inventories		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000

9	Trade receivables		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:

1. **Calculation of purchase consideration**

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

2. **Amount to be adjusted from general reserve**

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. **Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited**

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

3. **Balance Sheet of M/s ABC & Co. as at 31st March, 2021**

Equity & Liabilities		₹	*Assets*		₹
Capitals:			Building (₹ 1,10,000 + ₹ 1,50,000)		2,60,000
A	5,95,350		Plant & machinery (₹ 2,40,000 + ₹ 1,90,000)		4,30,000
B	3,96,900		Furniture (₹ 24,000+₹ 26,000)		50,000

C	1,98,450	11,90,700	Stock-in-trade (₹ 88,000 +₹ 1,10,000)		1,98,000
Sundry creditors (1,05,300+1,15,000)		2,20,300	Sundry debtors (₹ 1,40,000 +₹ 1,80,000)	3,20,000	
Bank Loan		50,000	*Less:* Provision for doubtful debts (₹ 14,000+₹ 30,000)	(44,000)	2,76,000
			Bank balance (₹ 45,000 +₹ 1,65,000)		2,10,000
			Cash in hand		37,000*
		14,61,000			14,61,000

In the books of AB & Co.
Partners' Capital Accounts

Particulars	*A* ₹	*B* ₹	*Particulars*	*A* ₹	*B* ₹
To Capital A/cs – M/s ABC & Co.	5,32,160	1,95,540	By Balance b/d	3,50,000	1,50,000
			By Reserve (4:1)	31,200	7,800
			By Profit on Realization A/c (W.N.4)	1,50,960	37,740
	5,32,160	1,95,540		5,32,160	1,95,540

In the books of BC & Co.
Partners' Capital Accounts

Particulars	*B* ₹	*C* ₹	*Particulars*	*B* ₹	*C* ₹
To Capital A/cs – M/s ABC& Co.	4,72,000	2,31,000	By Balance b/d	2,50,000	1,20,000
			By Reserves (2:1)	98,000	49,000
			By Profit on Realization (W.N.5)	1,24,000	62,000
	4,72,000	2,31,000		4,72,000	2,31,000

Working Notes:

1. **Computation of purchase considerations**

	AB & Co. ₹	*BC & Co.* ₹
Assets:		
Goodwill	1,50,000	90,000
Building	1,10,000	1,50,000
Plant & machinery	2,40,000	1,90,000
Furniture	24,000	26,000
Stock-in-trade	88,000	1,10,000

* *₹ 25,000+ ₹ 12,000 + ₹ 1,83,190+ ₹ 7,450 – ₹ 1,90,640 = ₹ 37,000.*

Sundry debtors	1,40,000	1,80,000
Bank balance	45,000	1,65,000
Cash in hand	25,000	12,000
Due from BC & Co.	75,000	-
(A)	8,97,000	9,23,000
Liabilities:		
Creditors	90,000	1,15,000
Provision for doubtful debts	14,000	30,000
Due to AB& Co.	-	75,000
Loan from Bank	50,000	-
Unrecorded liability	15,300	
(B)	1,69,300	2,20,000
Purchase consideration (A-B)	7,27,700	7,03,000

2. **Computation of proportionate capital**

	₹
M/s ABC & Co. (Purchase Consideration) (₹ 7,27,700 + ₹ 7,03,000)	14,30,700
Less: Goodwill adjustment	(2,40,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,90,700
A's proportionate capital	5,95,350
B's proportionate capital	3,96,900
C's proportionate capital	1,98,450

3. **Computation of Capital Adjustments**

	A	*B*	*C*	*Total*
	₹	₹	₹	₹
Balance transferred from AB & Co.	5,32,160	1,95,540		7,27,700
Balance transferred from BC & Co.		4,72,000	2,31,000	7,03,000
	5,32,160	6,67,540	2,31,000	14,30,700
*Less:*Goodwill written off in the ratio of 3:2:1	(1,20,000)	(80,000)	(40,000)	(2,40,000)
Existing capital	4,12,160	5,87,540	1,91,000	11,90,700
Proportionate capital	5,95,350	3,96,900	1,98,450	
Amount to be brought in (paid off)	1,83,190	(1,90,640)	7,450	

4. **In the books of AB & Co.**

Realization Account

	₹		₹
To Building	1,10,000	By Creditors	90,000
To Plant & machinery	1,80,000	By Bank Loan	50,000
To Furniture	24,000	By M/s AB & Co.	7,27,700
To Stock-in-trade	80,000	(purchase consideration)	
To Sundry debtors	1,40,000	(W.N.1)	
To Bank balance	45,000		

To Cash in hand		25,000		
To Due from BC & Co.		75,000		
To Partners' capital A/cs				
A	1,50,960			
B	37,740	1,88,700		
		8,67,700		8,67,700

5. **In the books of BC & Co.**

Realization Account

		₹		₹
To Building		90,000	By Creditors	1,15,000
To Plant & machinery		1,34,000	By Due to AB & Co.	75,000
To Furniture		26,000	By M/s ABC & Co.	7,03,000
To Stock-in-trade		1,00,000	(purchase consideration)	
To Sundry debtors		1,80,000	(W.N.1)	
To Bank balance		1,65,000		
To Cash in hand		12,000		
To Partners' capital A/cs				
B	1,24,000			
C	62,000	1,86,000		
		8,93,000		8,93,000

6. **Goodwill Computation:**

		₹
AB & Co.	Normal profit 5,00,000 × 18%	90,000
	Actual Profit	1,20,000
	Super Profit	30,000
	Goodwill (₹ 30,000 × 5)	1,50,000
BC & Co.	Normal profit 3,70,000 ×18%	66,600
	Actual Profit	81,600
	Super Profit	15,000
	Goodwill (₹15,000 × 6)	90,000

Note: The adjustments of partners A, B and C for Goodwill can also be shown in their Capital Accounts in the Books of AB & Co and BC & Co respectively.

4. **Consolidated Balance Sheet of Sun Ltd.and its subsidiary, Star Ltd.**

as at 31st March, 2022

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10,00,000

(b) Reserves and Surplus		2	6,17,600
(2) Minority Interest			1,67,200
(3) Current Liabilities			
(a) Trade Payables		3	1,29,000
(b) Short term borrowings		4	1,60,000
	Total		20,73,800
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment		5	14,82,000
(b) Intangible assets		6	34,400
(2) Current assets			
(a) Inventories		7	3,12,800
(b) Trade receivables		8	1,99,600
(c) Cash & Cash equivalents		9	45,000
	Total		20,73,800

Notes to Accounts

1	**Share Capital**			
	10,000 shares of ₹ 100 each			
2	**Reserves and Surplus**			
	Reserves		4,80,000	
	Profit & loss (Refer to W.N 8)		1,37,600	
	Total			6,17,600
3	**Trade Payables**			
	Sun Ltd.	94,200		
	Add: Star Ltd.	34,800		1,29,000
	Total			
4	**Short term borrowings**			
	Bank overdraft			1,60,000
5	**Property, plant and equipment**			
	Land and building- Sun Ltd.		3,00,000	
	Add: Land and building- Star Ltd.		3,60,000	6,60,000
	Plant & Machinery (Refer to W.N 7)			8,22,000
	Total			14,82,000
6	**Intangible assets**			-
	Goodwill (refer to W.N 6)			34,400
7	**Inventories**			
	Sun Ltd.		2,40,000	
	Star Ltd..		72,800	
	Total			3,12,800

8	**Trade Receivables**		
	Sun Ltd.	1,19,600	
	Star Ltd.	80,000	
	Total		1,99,600
9	**Cash & Cash equivalents**		
	Cash of Sun Ltd	29,000	
	Add: cash of Star Ltd..	16,000	
	Total	-	45,000

Share holding Pattern

Total Shares of Star Ltd.	4,000 shares
Shares held by Sun Ltd	3,200 shares i.e. 80 %
Minority Shareholding	800 shares i.e. 20 %

Working Notes:

1. The dividend @ 10% on 3,200 shares - ₹32,000 received by Sun Ltd. should have been credited to the investment A/c, being out of pre-acquisition profits. Sun Ltd., must pass a rectification entry, viz.

Profit & Loss Account	Dr.	₹ 32,000	
To Investment			₹ 32,000

2. The Plant & Machinery of Star Ltd. would stand in the books at ₹ 2,85,000 on 1st Oct, 2021, considering only six months' depreciation on ₹ 3,00,000 total depreciation being ₹ 30,000. The value put on the assets being ₹ 3,60,000, there is an appreciation to the extent of ₹ 75,000 (3,60,000 – 2,85,000).

3. **Capital profits of Star Ltd.**

	₹	₹
Reserve on 1st April, 2021 (Assumed there is no movement in reserves during the year and hence balance as on 1st April 2021 is same as of 31st March, 2022)		2,00,000
Profit & Loss Account Balance on 1st April, 2021	60,000	
Less: Dividend paid	(40,000)	20,000
Profit for 2021-22: Total ₹ 1,64,000 Less: (₹ 20,000) ₹ 1,44,000		
Proportionate upto 1st Oct, 2021 on time basis (₹ 1,44,000/2)		72,000
Appreciation in value of Plant & Machinery		75,000
		3,67,000
Less: 20% due to outsiders		(73,400)
Holding company's share		2,93,600

4. **Revenue profits of Star Ltd.:**

Profit after 1st Oct, 2021 [(1,64,000 – 20,000) x ½]		72,000
Less: Depreciation		
10% depreciation on ₹ 3,60,000 for 6 months	18,000	
Less: Depreciation already charged for		
2nd half year on 3,00,000	(15,000)	(3,000)
		69,000
Less: 1/5 due to outsiders		(13,800)
Share of Sun Ltd.		55,200

5. **Minority interest:**

Par value of 800 shares (4,00,000 X 20%)	80,000
Add: 1/5Capital Profits [WN 3]	73,400
1/5 Revenue Profits [WN 4]	13,800
	1,67,200

6. **Cost of Control:**

Amount paid for 3,200 shares	6,80,000	
Less: Dividend out of pre-acquisition profits	(32,000)	6,48,000
Par value of shares	3,20,000	-
Capital Profits –share of Sun Ltd. [WN 3]	2,93,600	(6,13,600)
Cost of Control or Goodwill		34,400

7. **Value of Plant & Machinery:**

Sun Ltd.		4,80,000
Star Ltd.	2,70,000	
Add: Appreciation on 1st Oct, 2021 [3,60,000 – (3,00,000 – 15,000)]	75,000	
	3,45,000	
Add: Deprecation for 2nd half charged on pre-revalued value	15,000	
Less: Depreciation on ₹3,60,000 for 6 months	(18,000)	3,42,000
		8,22,000

8. **Profit & Loss Account (Consolidated):**

Sun Ltd.as given	1,14,400	
Less: Dividend transferred to Investment A/c	(32,000)	82,400
Share of Sun Ltd.in revenue profits of Star Ltd.(WN 4)		55,200
		1,37,600

5. (a) (i) **Capital Funds - Tier I:** ***(Figures in ₹ Crores)***

Equity Share Capital	950
Statutory Reserve	380
Share Premium	250
Capital Reserve (arising out of sale of assets)	92

			1,672
Less: Intangible assets			(20)
			1,652
Capital Funds - Tier II:			
Capital Reserve (arising out of revaluation of assets)		26	
Less: Discount to the extent of 55%		(14.3)	11.7
			1,663.70

(ii) Risk Adjusted Assets

Funded Risk Assets	₹ in lakhs	Percentage weight	Amount ₹ in lakhs
Cash Balance with RBI	78	0	0
Balances with other Banks	240	20	48
Other Investments	98	100	98
Loans and Advances:			
(i) guaranteed by government	600	0	0
(ii) granted to staff	800	20	160
(iii) Others	6000	100	6000
Premises, furniture and fixtures	100	100	100
Off Balance Sheet Items			
Acceptances, Endorsements			
and Letters of credit	6000	100	6000
Guarantees & other obligations	1000	100	1000
Risk Adjusted Assets + Off Balance Sheet Items			13,406

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

$= \frac{1,663.70}{13,406} \times 100$

Capital Adequacy Ratio = 12.41%

(b) Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	*(Shares)*
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	28,00,000
Shareholders' funds (₹)	45,00,000
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹ 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Shareholder's Funds post Buy Back

	Particulars	*₹*
(a)	Loan funds (₹) (38,00,000+8,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	23,25,000
(c)	Present equity/shareholders fund (₹)	45,00,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (45,00,000 – 5,43,750)	39,56,250
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2022.

However, company wants to buy-back only 35,000 equity shares @ ₹ 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

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

$$(45,00,000 - x) - 23,25,000 = y \qquad (1)$$

$$\left(\frac{y}{30} \times 10\right) = x \quad \text{Or} \quad 3x = y \qquad (2)$$

by solving the above equation, we get

x = ₹ 5,43,750

y = ₹ 16,31,250

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

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

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

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

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
5% on Assets realised	(13,75,000 x 5%)	68,750
8% on payment made to Unsecured creditors (Refer W.N)		7,080
Total Remuneration payable to Liquidator		75,830

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors and liquidator's remuneration

	₹	₹
Total amount realized		₹ 13,75,000
Less: Liquidation expenses paid	(13,000)	
Payment to secured creditors	(1,00,000)	
Liquidator's remuneration on assets realized	(68,750)	
		₹ 1,81,750
		₹11,93,250

Sufficient amount is available for preference creditors (treated as unsecured creditors) therefore Liquidator's remuneration on payment to unsecured creditors = 8% x ₹ 88,500 = ₹ 7,080

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

There are no unsecured creditors (other than preferential creditors who are treated as unsecured creditors).

(c) The income recognition shall be based on recognised accounting principles.

(1) Income including interest/ discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

(2) In respect of hire purchase assets, where instalments are overdue for more than 3 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became nonperforming and remaining unrealized, shall be reversed.

(3) In respect of lease assets, where lease rentals are overdue for more than 3 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

(d) **Bills for Collection (Assets) Account**

	₹ in lacs		₹ in lacs
To Balance b/d	21	By Bills for collection	141
To Bills for collection	193.5	By Bills dishonoured	16.5
		By Balance c/d	57
	214.5		214.5

Bills for Collection (Liabilities) Account

	₹ in lacs		₹ in lacs
To Bills for collection	141	By Balance b/d	21
To Bills dishonoured	16.5	By Bills for collection	193.5
To Balance c/d	57		
	214.5		214.5

(e) **Computation of contract cost**

	₹ Lakh	₹ Lakh
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		7
Cost incurred (till date)		45
Add: further cost to be incurred		35
Total contract cost		80

Percentage of completion = Cost incurred till date/Estimated total cost

= ₹ 45,00,000/₹ 80,00,000

= 56.25%

Contract revenue and costs to be recognized

Contract revenue (₹ 85,00,000x56.25%) = ₹ 47,81,250

Contract costs = ₹ 45,00,000