PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For MAY, 2019 EXAMINATION

A. Applicable for May, 2019 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

(I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;

(II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

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.

Note: Chapters No.2, 12, 13 and 14 have been revised and the revised chapters have been web hosted at the BoS Knowledge Portal.

B. <u>Not applicable for May, 2019 examination</u>

Non-Applicability of Ind AS for May, 2019 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, 2019 Examination.

II- The Guidance Note on 'Accounting for Depreciation in Companies in context of schedule II to the Companies Act, 2013' is not applicable for May 2019 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Employee Stock Option Plans

1. A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 7,500 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 7,200 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

Buy Back of Securities

2. Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

Equity Shares with Differential rights

3. Explain the conditions under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

Underwriting of Shares

4. A joint stock company resolved to issue 10 lakh equity shares of ₹10 each at a premium of ₹1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.

Amalgamation of Companies

5. P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018 Their summarized Balance Sheets as on 31.03.2018 were as follows:

(₹in '000)

Particulars	*P Ltd.*	*Q Ltd.*
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

Internal Reconstruction of a Company

6. The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	*Note No.*	*Amount (₹ in lakh)*
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
Non-Current Assets		
Property, Plant & Equipment		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450

Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital	
	Authorised :	
	200 lakh shares of ₹ 10 each	2,000
	8 lakh, 8% Preference Shares of ₹ 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	

Trade receivables for Goods	450
(10) Cash and Cash Equivalents	
Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹400 lakh.

(6) All investments sold out for ₹250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Reconstruction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

Liquidation of Company

7. The following is the summarized Balance Sheet of Shah Ltd. Co. which is in the hands of the liquidator:

Balance Sheet as at 31.3.2017

Liabilities	₹	*Assets*	₹
Share Capital:		Fixed assets	2,00,000

1,000, 6% Preference Shares of ₹ 100 each, fully paid	1,00,000	Inventory	1,20,000
		Book debts	2,40,000
2,000 Equity shares of ₹ 100 each, fully paid	2,00,000	Cash in hand	40,000
		Profit and loss A/c	3,00,000
2,000 Equity shares of ₹ 100 each ₹ 75 paid up	1,50,000		
Loan from bank (on security of stock)	1,00,000		
Trade Payables	3,50,000		
	9,00,000		9,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

	₹
Fixed assets	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

Financial Statements of Insurance Companies

8. From the following balances extracted from the books of REAL General Insurance Company Ltd. as on 31st March 2017, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance Business for the year ended 31st March, 2017.

Particulars	Fire ₹	Marine ₹
Outstanding Claim as on 1st April, 2016	28,000	7,000
Claims Paid	1,00,000	80,000
Reserved for unexpired Risk as on 1st April 2016	2,00,000	1,40,000
Premium Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of management	60,000	45,000
Re Insurance Premium –Dr.	25,000	15,000

The following additional points are also to be taken into consideration:

(1) Claims outstanding as on 31st March 2017 were as follows:

(a) Fire Insurance - ₹ 10,000

(b) Marine Insurance - ₹ 15,000

(2) Premium outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance - ₹ 30,000

(b) Marine Insurance - ₹ 20,000

(3) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire & Marine Insurance respectively.

(4) Expenses of management due on 31st March, 2017 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of Marine Insurance.

Financial Statements of Banking Companies

9. From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2018:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

		₹ in lakhs	
		Earned	Collected
(i)	Interest on NPA is as follows:		
	Cash Credit	164	80
	Term Loans	90	20
	Overdraft	150	50
(ii)	Classification of Non-performing Advances:		
	Standard		60
	Sub-standard-fully secured		22
	Doubtful assets-fully unsecured		40
	Doubtful assets covered fully by security:		
	Less than 1 year		6
	More than 1 year upto 3 years		3
	More than 3 years		2
	Loss Assets		38

(iii) Provide 35% of the profits towards provision for taxation.

(iv) Transfer 25% of the profit to Statutory Reserves.

NBFC

10. LK Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 400 lakhs of which installments are overdue on 400 accounts for last two months (amount overdue ₹ 80 lakhs), on 24 accounts for three months (amount overdue ₹ 48 lakhs), on 10 accounts for more than 30 months (amount overdue ₹ 40 lakhs) and on 4 accounts for more than three years (amount over due ₹ 40 lakhs-already identified as sub-standard assets) and one account of ₹ 20 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 12 lakhs) for more than fourteen months and other are identified as sub-standard asset for a period of less than fourteen months.

    Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Mutual Fund

11. What do you mean by "Net asset value" (NAV) in case of mutual fund units?

Valuation of Goodwill

12. On the basis of the following information, calculate the value of goodwill (on the basis of closing capital employed) of Holy Ltd. at three years' purchase of super profits, if any, earned by the company in the previous four completed accounting years.

Summarised Balance Sheet of Holy Ltd. as at 31st March, 2018

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share Capital:		Goodwill	620
Authorised	15,000	Land and Buildings	37,00
Issued and Subscribed	-	Machinery	75,20
10 crore equity shares of		Furniture and Fixtures	20,30
₹ 10 each, fully paid up	10,000	Patents and Trade Marks	64
Capital Reserve	520	9% Non-trading Investments	12,00
General Reserve	65,86	Inventory	17,46
Surplus i.e. credit balance of Profit and Loss (appropriation) A/c	914	Trade receivables	12,28
Trade payables	11,36	Cash in hand and at Bank	10,92
Provision for Taxation (net)	44		
	19,200		19,200

The profits before tax of the four years have been as follows:

Year ended 31st March	Profit before tax in lakhs of ₹
2014	6,380
2015	5,000
2016	6,216
2017	5,800

The rate of income tax for the accounting year 2013-2014 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2017-2018 it will be 35%.

In the accounting year 2013-2014, the company earned an extraordinary income of ₹ 2 crore due to a special foreign contract. In August, 2014 there was an earthquake due to which the company lost property worth ₹ 100 lakhs and the insurance policy did not cover the loss due to earthquake or riots.

9% Non-trading investments appearing in the above mentioned Balance Sheet were purchased at par by the company on 1st April, 2015.

The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of ₹ 100 lakhs every year beginning from the accounting year 2017-2018.

Consolidation Financial Statements

13. The following data is provided to you:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2018		31.12.2018	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
			₹	₹	₹	₹	₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve.

Accounting Standards

AS 7 Construction Contracts

14. GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹ 102 lacs, ₹ 150 lacs, ₹ 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

AS 9 Revenue Recognition

15 Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj

Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

AS 18 Related Party Transactions

16. SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited"?

AS 19 Leases

17. Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and present value of annuity factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

    You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

AS 20 Earnings Per Share

18 "While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS.

    Also calculate the diluted EPS from the following information:

Net Profit for the current year (After Tax)	₹ 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹ 100 each (Each Debenture is compulsorily & fully convertible into 10 equity shares issued at the mid of the year)	1,00,000
Debenture interest expense for the current year	₹ 5,00,000
Assume applicable Income Tax rate @ 30%	

AS 26 Intangible Assets

19 A Company with a turnover of ₹ 375 crores and an annual advertising budget of ₹ 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 37.5 croes from the new product. The company had debited to its

Profit and Loss account the total expenditure of ₹ 3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct?

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20 M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

SUGGESTED ANSWERS/HINTS

1. In the books of Company

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-3-X2 to 31-3-X2	Bank A/c (7,200 x 50)	Dr.	3,60,000	
	Employees compensation expenses A/c	Dr.	6,48,000	
	To Equity Share Capital A/c (7,200 x 10)			72,000
	To Securities Premium A/c (7,200 x ₹ 130)			9,36,000
	(Being allotment to employees 7,200 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)			
31-3-X2	Profit and Loss account	Dr.	6,48,000	
	To Employees compensation expenses A/c			6,48,000
	(Being transfer of employees compensation expenses)			

Working Notes:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140 – ₹ 50 = ₹ 90 per share = ₹ 90 x 7,200 = ₹ 6,48,000 in total.
2. Securities Premium Account = ₹ 50 – ₹ 10 = ₹ 40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 x 7,200= ₹ 9,36,000 in total.

2. In the books of Alpha Limited

Journal Entries

Date 2017	*Particulars*		*Dr.*	*Cr. (₹ 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 5	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 5	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve A/c			600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			

Balance Sheet (After buy back)

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500

(3) Current Liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

				(₹ in Lakhs)
1.	**Share Capital**			
	Equity share capital (Fully paid up shares of ₹10 each)			1800
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		
	Transfer due to buy-back of shares from Gen. res.	530	1,000	
	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	1,322
3.	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

3. In exercise of the power conferred under Section 43(a)(ii), the central government announced Rule 4 under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

The rules lay down the following conditions to be compulsorily complied with:

(a) The articles of association of the company authorizes the issue of shares with differential rights;

(b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;

(c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

(d) The company having consistent track record of distributable profits for the last three years;

(e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

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

4. Statement showing underwriters' liability for shares other than shares underwritten firm

	X	*Y*	*Z*	*Total*
Gross liability (Issued shares – purchased by promoters, directors etc.)	5,85,000	2,25,000	90,000	9,00,000
(9,00,000 shares in the ratio of 65 : 25 : 10)				
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less: Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	₹	₹	₹
Additional Liability for additional shares @ ₹11	44,000	–	93,500
Underwriting commission payable on Gross Liability			
(Shares underwritten as Gross liability × ₹11 × 2%)	(1,28,700)	(49,500)	(19,800)
Net Amount payable	(84,700)	(49,500)	-
Net Amount receivable	-	-	73,700

5. M/s R Ltd.

Balance Sheet as at 1.4.2018

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	6,55,980
	b	Reserves and Surplus	2	2,77,990

2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade Payables	4	80,000
	b	Short term provision	5	22,000
		Total		11,15,970
		Assets		
1		**Non-current assets**		
	a	Property, Plant & Equipment		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000
2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		11,15,970

Notes to accounts

		₹ in'000
1.	**Share Capital**	
	Equity share capital	
	55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
	Preference share capital	
	9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
		6,55,980
2.	**Reserves and Surplus**	
	Securities premium (W.N.2)	2,77,990
	Investment allowance reserve (₹10,000+ ₹4,000)	14,000
	Amalgamation adjustment reserve	(14,000)
		2,77,990

3.	**Long-term borrowings**	
	Secured	
	10% Debentures (50% of ₹1,60,000)	80,000
4.	**Trade Payables** (₹50,000+ ₹30,000)	80,000
5.	**Short term provisions**	
	Provision for tax (₹14,000+ ₹8,000)	22,000
6.	**Tangible assets**	
	Building (₹1,32,000+₹1,05,000)	2,37,000
	Plant and machinery (₹1,76,000+₹1,47,000)	3,23,000
		5,60,000
7.	**Non – current Investments (₹80,000+ ₹50,000)**	1,30,000
8.	**Inventory**	
	Stock (₹ 72,000+ ₹ 80,000)	1,52,000
9.	**Trade receivables**	
	Trade receivables (90% of (₹90,000+ ₹70,000)	1,44,000
10.	**Cash and cash equivalents**	
	Cash and Bank (₹ 80,000+ ₹ 50,000 – ₹ 30)	1,29,970

Working Notes:

1. **Calculation of value of equity shares issued to transferor companies**

		P Ltd.		*Q Ltd.*
		(₹)		(₹)
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000

Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. **Number of shares issued to equity shareholders, debenture holders and preference shareholders**

	P Ltd.	*Q Ltd.*	*Total*
Equity shares issued @ ₹ 15 per share (including ₹ 5 premium)			
₹3,97,000/15	26,466 shares[1]		
₹3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
50% of Debentures are converted into equity shares @ ₹ 15 per share			
1,00,000/2 = 50,000/15	3,332 shares[2]		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	₹33,320	₹20,000	₹53,320
Security premium@ ₹5	₹16,660	₹10,000	₹26,660
	₹49,980	₹30,000	₹ 79,980
9% Preference share capital issued	₹60,000	₹40,000	₹1,00,000

[1] Cash paid for fraction of shares = ₹ 3,97,000 less ₹ 3,96,990 = ₹10

[2] Cash paid for fraction of shares = ₹ 50,000 less ₹ 49,980 = ₹20

6. (a) **Journal Entries in the books of Lion Ltd.**

	Particulars		*Debit (₹ in lakhs)*	*Credit (₹ in lakhs)*
(i)	8% Preference share capital A/c (₹100 each)	Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹ 2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹2 each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹ 2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of ₹2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			

(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450 x 40%)			180
	To Inventories-in-trade A/c (300x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

Dr. **Cr.**

	(₹ in lakhs)		(₹ in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50

To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

(c) Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹ 2 each		400
	8 lakhs 8% Preference shares of ₹ 80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of ₹2 each		322
	4 lakhs Preference Shares of ₹80 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

7. Liquidator's Final Statement of Receipts and Payments A/c

	₹	₹		₹
To Cash in hand To Assets realised:		40,000	By Liquidator's remuneration and expenses	5,000
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000
(1,10,000 – 1,00,000) Book debts	10,000 2,30,000	4,08,000	By Equity shareholders @ ₹ 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15*		27,000		
		4,75,000		4,75,000

Working Note:

Return per equity share

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share= $\frac{₹\ 38,000}{3,800\ (4,000-200)} = ₹\ 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

*Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

8. **Form B – RA (Prescribed by IRDA)**

Real General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2017

Fire and Marine Insurance Business

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	4,27,500	1,40,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		4,27,500	1,40,000
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000
Operating expenses related to Insurance business	4	70,000	50,000
Total (B)		1,92,000	1,58,000
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account

	Fire	*Marine*
	₹	₹
Schedule -1		
Premium earned (net)		
Premium received during the year	4,50,000	3,30,000
Add: Outstanding on 31st March 2017	30,000	20,000
	4,80,000	3,50,000
Less: Reinsurance premiums	(25,000)	(15,000)
	4,55,000	3,35,000
Less: Adjustment for change in provision for unexpired risk	(27,500)	(1,95,000)
	4,27,500	1,40,000
Schedule – 2		
Claims incurred (net)		
Claims paid during the year	1,00,000	80,000
Add: Outstanding on 31st March,2017	10,000	15,000
	1,10,000	95,000
Less: Outstanding on 1st April,2016	(28,000)	(7,000)
	82,000	88,000
Schedule – 3		
Commission paid	40,000	20,000
Schedule – 4		
Operating expenses		
Expenses of Management		
Expenses paid during the year	60,000	45,000
Add: Outstanding on 31st March,2017	10,000	5,000
	70,000	50,000

Working note for changes in unexpired Risk Reserve

Reserve for unexpired Risk (Fire Insurance @50%)	
Opening Reserve (1)	₹ 2,00,000
Closing Reserve (₹ 4,55,000 X 50/100) (2)	₹ 2,27,500
Additional Transfer to Reserve (2 – 1)	₹ 27,500

Reserve for unexpired Risk (Marine Insurance @100%)	
Opening Reserve (1)	₹1,40,000
Closing Reserve (₹ 3,35,000 X 100/100) (2)	₹3,35,000
Additional Transfer to Reserve (2 – 1)	₹1,95,000

9. **Wealth Bank Limited**

Profit and Loss Account

For the year ended 31st March, 2018

₹ in lakhs

	Particulars	*Schedule*	*Year ended 31-3-2018*
I	Income		
	Interest earned	13	766
	Other income	14	50
			816
II	Expenditure		
	Interest expended	15	54
	Operating expenses	16	468
	Provisions and Contingencies (Refer W.N.)		158.96
			680.96
III	Profit/Loss		
	Net Profit/(Loss) for the year		135.04
	Net Profit/(Loss) brought forward		Nil
			135.04
IV	Appropriations:		
	Transfer to Statutory reserve (25% of the profits)		33.76
	Balance carried to the balance sheet		101.28
	Total		135.04

Schedule 13 - Interest Earned

		Year ended 31-3-2018 (₹ in lakhs)	
I	Interest/discount on advances/bills		
	Interest on cash credit (364-84)	280	

	Interest on overdraft (150-100)	50	
	Interest on term loans (308-70)	238	568
II	Income on investments		168
III	Interest on Balance with RBI		30
			766

Interest on NPA is recognized on cash basis, hence difference of accrued interest not received have been reduced from the total accrued interest.

Schedule 14 - Other Income

			Year ended 31-3-2018 (₹ in lakhs)
I	Commission, Exchange and Brokerage:		
	Commission on remittances and transfer	15	
	Commission on letter of credit	24	
	Commission on Government business	16	55
II	Profit on sale of Land and Building		5
III	Loss on Exchange Transactions		(10)
			50

Schedule 15 - Interest Expended

			Year ended 31-3-2018 (₹ in lakhs)
I	Interest on Deposits		
	Fixed deposits	25	
	Recurring deposits	17	
	Saving bank deposits	12	54

Schedule 16 - Operating Expenses

			Year Ended 31-3-2018 (₹ in lakhs)
I	Payment to and provision for employees		
	Salaries, allowances and bonus	248	
	Provident Fund Contribution	56	304
II	Printing and Stationery		28

III	Advertisement and publicity		36
IV	Directors' fees, allowances and expenses		50
V	Auditors' fees and expenses		24
VI	Postage, telegrams, telephones etc.		16
VII	Repairs and maintenance		10
			468

Working Note:

Provisions and contingencies			(₹ *in lakhs*)
Provision for Advances:			
Standard	60 × 0.40%		0.24
Sub-standard	22 × 15%		3.3
Doubtful not covered by security	40× 100%		40
Doubtful covered by security:			
Less than 1 year	6 x 25%	1.5	4.7
More than 1 year but less than 3 years	3 x 40%	1.2	
More than 3 years	2 x 100%	2.0	
Loss Assets	(38 × 100%)		38
			86.24
Provision for tax	35% of (Total Income – Total Expenditure)		
	35% of [816-(54 + 468 + 86.24)]		
	35% of 207.76		72.72
			158.96

10. Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

		(₹ *in lakhs*)
Standard Assets		
Accounts (Balancing figure)	172.00	
400 accounts overdue for a period for 2 months	80.00	
24 accounts overdue for a period by 3 months	48.00	300.00

Sub-Standard Assets	
4 accounts identified as sub-standard asset for a period less than 14 months	28.00
Doubtful Debts	
6 accounts identified as sub-standard for a period more than 14 months	12.00
4 accounts identified as sub-standard for a period more than 3 years	40.00
Loss Assets	
1 account identified by management as loss asset	20.00
Total overdue	400.00

11. The net asset value of a mutual fund scheme is basically the per unit market value of all the assets of the scheme. Simply stated, NAV is the value of the assets of each unit of the scheme, or even simpler value of one unit of the scheme. Thus, if the NAV is more than the face value (₹ 10), it means your money has appreciated and vice versa. NAV also includes dividends, interest accruals and reduction of liabilities and expenses besides market value of investments. NAV is the value of net assets under a mutual fund scheme. NAV per unit is NAV of the scheme divided by number of units outstanding. NAV of a scheme keeps on changing with change in market value of portfolio under the scheme.

Net Asset Value (NAV) is calculated as under:

$$\frac{\text{Total market value of all Mutual Fund holdings - All Mutual Fund liabilities}}{\text{Unit size}}$$

12. (1) Capital employed as on 31st March, 2018

(Refer to 'Note')

		₹ in lakhs
Land and Buildings		3,700
Machinery		7,520
Furniture and Fixtures		2,030
Patents and Trade Marks		64
Inventory		1,746
Trade receivables		1,228
Cash in hand and at Bank		1,092
		17,380
Less: Trade payables	1136	
Provision for taxation (net)	44	1,180
		16,200

(2) Future maintainable profit

(Amounts in lakhs of ₹)

	2013-2014 ₹	2014-2015 ₹	2015-2016 ₹	2016-2017 ₹
Profit before tax	6,380	5,000	6,216	5,800
Less: Extraordinary income due to foreign contract	(200)			
Add: Loss due to earthquake		100		
Less: Income from non-trading investments	——	——	(108)	(108)
	6,180	5,100	6,108	5,692

As there is no trend, simple average profits will be considered for calculation of goodwill.

Total adjusted trading profits for the last four years	= ₹ (6,180 + 5,100 + 6,108 + 5,692)
	= ₹ 23,080 lakhs
Average trading profit before tax = 23,080/4	= ₹ 5,770 lakhs
Less: Additional remuneration to directors	(100) Lakh
	5670 Lakh
Less: Income tax @ 35%	(1984) (Approx.)
	3686 Lakh

(3) Valuation of Goodwill on Super Profits Basis

	₹ in lakh
Future maintainable profits	3686
Less: Normal profits (20% of ₹ 16,200 lakhs)	(3240)
Super profits	446

Goodwill at 3 years' purchase of super profits = 3 x ₹ 446 lakhs = ₹ 1,338 lakhs

13. (1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c.

	Minority % Shares Owned [E]	Minority interest as at the date of acquisition [E] x [A + B] ₹	Minority interest as at the date of consolidation [E] X [C + D] ₹
Case 1 [100-90]	10 %	15,000	17,000
Case 2 [100-85]	15 %	19,500	18,000

Case 3 [100-80]	20 %	14,000	14,000
Case 4 [100-100]	NIL	Nil	Nil

A = Share capital on 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 1.1.2018

(2) Calculation of Goodwill or Capital Reserve

	Shareholding % [F]	Cost [G]	Total Equity [A] + [B] = [H]	Parent's Portion of equity [F] x [H]	Goodwill ₹ [G] – [H]	Capital Reserve ₹ [H] – [G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85 %	1,04,000	1,30,000	1,10,500	—	6,500
Case 3	80 %	56,000	70,000	56,000	Nil	Nil
Case 4	100 %	1,00,000	90,000	90,000	10,000	—

14. As per AS 7 'Construction Contracts', when a contract covers number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Offices, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one single agreement for contracts.

Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract, principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS 7.

15. 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.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

16. Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the above example, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

17. Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= ₹ 50,000 x 0.7513

= ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565

= ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹ 4,62,435/ 2.4868 =₹ 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value

= (₹ 1,85,956 × 3) + ₹ 50,000

= ₹ 5,57,868 + ₹ 50,000 = ₹ 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value

= ₹ 6,07,868 – ₹ 5,00,000 = ₹ 1,07,868

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

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

Adjusted net profit for the current year

	₹
Net profit for the current year (after tax)	1,00,00,000
Add: Interest expense for the current year	5,00,000
Less: Tax relating to interest expense (30% of ₹5,00,000)	(1,50,000)
Adjusted net profit for the current year	1,03,50,000

Weighted average number of equity shares

Number of equity shares resulting from conversion of debentures

$= \frac{1,00,000 \times 100}{10}$ = 10,00,000 Equity shares

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

= [(10,00,000 x 12) + (10,00,000 x 6)]/12 = 15,00,000 equity shares

Diluted earnings per share = ₹ 1,03,50,000 / 15,00,000 shares = ₹ 6.90 per share

19. According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of ₹ 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹3 crores to the Profit and Loss account of the year is correct.

20. As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹ 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."