PAPER – 5: ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) *Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018:*

	₹ In Lakhs
Total Contract Price	*12,000*
Work Certified	*6,250*
Work not certified	*1,250*
Estimated further cost to completion	*8,750*
Progress payment received	*5,500*
Progress payment to be received	*1,500*

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

(i) *Profit/Loss for the year ended 31st March, 2018.*

(ii) *Contract work in progress as at end of financial year 2017-18.*

(iii) *Revenue to be recognized out of the total contract value.*

(iv) *Amount due from/to customers as at the year end.*

(b) *As at 1st April, 2016 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2016 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2017 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.*

Compute Basic EPS for the year ended 31st March, 2017 as per Accounting Standard 20 "Earnings Per Share".

(c) *A company acquired a patent at a cost of ₹ 160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at ₹ 16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may* *continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be ₹ 50 lakhs, ₹ 30 lakhs, ₹ 60 lakhs, ₹ 70 lakhs and ₹ 40 lakhs. Find out the amortization cost of the patent for each of the years.*

(d) *A Ltd. sold JCB having WDV of ₹ 20 lakhs to B Ltd. for ₹ 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if*

(i) *Sale price of ₹ 24 lakhs is equal to fair value.*

(ii) *Fair value is ₹ 20 lakhs and sale price is ₹ 24 lakhs.*

(iii) *Fair value is ₹ 22 lakhs and sale price is ₹ 25 lakhs.*

(v) *Fair value is ₹ 25 lakhs and sale price is ₹ 18 lakhs.*

(v) *Fair value is ₹ 18 lakhs and sale price is ₹ 19 lakhs.* ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a)

(i)	**Loss for the year ended, 31st March, 2018**	***(₹ in lakhs)***
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

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

Loss for the year ended, 31st March, 2018 amounting ₹ 4,250 will be recognized.

(ii)	**Contract work-in-progress as on 31.3.18**	***(₹ in lakhs)***
	Contract work-in-progress i.e. cost incurred to date are ₹ 7,500 lakhs:	
	Work certified	6,250
	Work not certified	1,250
		7,500

(iii) Proportion of total contract value recognised as revenue

Cost incurred till 31.3.18 is 46.15% (7,500/16,250 $\times$ 100) of total costs of construction.

Proportion of total contract value recognised as revenue:

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

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

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

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

= [3,250 – 7,000] ₹ in lakhs

Amount due to customers = ₹ 3,750 lakhs

(b) Basic Earnings per share (EPS) =

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

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

Working Note:

Calculation of weighted average number of equity shares

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

Date	*No. of equity shares*	*Amount paid per share*	*Weighted average no. of equity shares*
	₹	₹	₹
1.4.2016	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2016	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2016	60,000	5	60,000 x 5/10 x 7/12 = 17,500
Total weighted average equity shares			4,57,500

(c) Company amortized ₹ 16,00,000 per annum for the first two years. Hence, Amortization for the first two years (₹ 16,00,000 X 2) = ₹ 32,00,000.

Remaining carrying cost after two years =₹ 1,60,00,000 – ₹ 32,00,000

= ₹ 1,28,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost ₹128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows:

Year	***Net cash flows ₹***	***Amortization Ratio***	***Amortization Amount ₹***
I	-	0.1	16,00,000
II	-	0.1	16,00,000
III	50,00,000	0.2	25,60,000
IV	30,00,000	0.12	15,36,000
V	60,00,000	0.24	30,72,000
VI	70,00,000	0.28	35,84,000
VII	40,00,000	0.16	20,48,000
Total	250,00,000	1.000	160,00,000

(d) Following will be the treatment in the given cases:

(i) When sale price of ₹ 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is ₹ 20 lakhs & sale price is ₹ 24 lakhs then profit of ₹ 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is ₹ 22 lakhs & sale price is ₹ 25 lakhs, profit of ₹ 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of ₹3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is ₹ 25 lakhs & sale price is ₹ 18 lakhs, then loss of ₹ 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is ₹ 18 lakhs & sale price is ₹ 19 lakhs, then the loss of ₹ 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of ₹ 1 lakhs (19-18) should be amortised/deferred over lease period.

Question 2

(a) Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2017:

	₹ In lakhs	***₹ In lakhs***
<u>Equity & Liabilities</u>		
Shareholders' Funds		
Equity share capital (fully paid up shares of ₹ 10 each)		*2,400*

Reserves and Surplus		
Securities Premium	*350*	
General Reserve	*530*	
Capital Redemption Reserve	*400*	
Profit & Loss Account	*340*	*1,620*
Non-current Liabilities		
12% Debentures		*1,500*
Current Liabilities		
Trade Payables	*1,490*	
Other Current Liabilities	*390*	*1,880*
Total		*7,400*
Assets		
Non-current Assets		
Fixed Assets		*4,052*
Current Assets		
Current Investments	*148*	
Inventories	*1,200*	
Trade Receivables	*520*	
Cash and Bank	*1,480*	*3,348*
Total		*7,400*

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

(ii) On 10th April, 2017 the company achieved the target of buy-back.

(iii) On 30th April, 2017, the company issued one fully paid up equity share of ₹ 10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue. ***(10 Marks)***

(b) Fast Ltd. came up with public issue of 6,00,000 equity shares of ₹ 10 each at par. The entire issue was underwritten by A, Band C as follows:

A - 3,60,000 shares B - 1,50,000 shares C - 90,000 shares

A, B and C also agreed on firm underwriting of 48,000; 18,000 and 60,000 shares respectively.

Total subscription received by the company (excluding firm underwriting and marked applications) were 90,000 shares.

The marked applications (excluding firm underwriting) were as follows:

A -1,18,500 shares B - 58,000 shares C - 33,500 shares

The underwriting contract provides that credit for unmarked application be given to underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

The agreed commission was 4% of the issue price.

You are required to:

(i) Calculate the liability of each underwriter (number of shares).

(ii) Compute the amounts payable or due from underwriters.

(iii) Pass Journal Entries in the books of the company relating to underwriting. ***(10 Marks)***

Answer

(a) 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 10	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)			
April 10	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve (CRR) A/c			600

	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)		
April 30	Capital redemption reserve A/c Dr.	450	
	To Bonus shares A/c (W.N.1)		450
	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c Dr.	450	
	To Equity share capital A/c		450
	(Being issue of one bonus equity share for every four equity shares held)		
	Profit on sale of Investment Dr.	2	
	To Profit and Loss A/c		2
	(Profit on sale transfer to Profit and Loss A/c)		

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

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

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
Total		6,502
II. Assets		
(1) Non-current assets		

(a) Fixed assets		
(i) Tangible assets		4,052
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
Total		6,502

Notes to Accounts

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

Working Notes:

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

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

	₹ in lakhs
Cash balance as on 1st April, 2017	1480

Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

(b) (i) Computation of total liability of underwriters in shares

	(In shares)			
	A	B	C	*Total*
Gross liability	3,60,000	1,50,000	90,000	6,00,000
Less: Marked applications (excluding firm underwriting)	(1,18,500)	(58,000)	(33,500)	(2,10,000)
	2,41,500	92,000	56,500	3,90,000
Less: Unmarked applications in the ratio of gross liabilities of 12:5:3 (excluding firm underwriting)	(54,000)	(22,500)	(13,500)	(90,000)
	1,87,500	69,500	43,000	3,00,000
Less: Firm underwriting	(48,000)	(18,000)	(60,000)	(1,26,000)
	1,39,500	51,500	(17,000)	1,74,000
Less: Surplus of C shared by A & B in 12:5	(12,000)	(5,000)	17,000	
Net liability	1,27,500	46,500	-	1,74,000
Add: Firm underwriting	48,000	18,000	60,000	1,26,000
Total liability	1,75,500	64,500	60,000	3,00,000

(ii) Calculation of amount payable to or due from underwriters

	A	*B*	*C*	*Total*
Total Liability in shares	1,75,500	64,500	60,000	3,00,000
Amount receivable @ ₹ 10 from underwriter (in ₹)	17,55,000	6,45,000	6,00,000	30,00,000
Less: underwriting commission (4%)	(1,44,000)	(60,000)	(36,000)	(2,40,000)
Net amount receivable	16,11,000	5,85,000	5,64,000	27,60,000

(iii) Journal Entries in the books of the company (relating to underwriting)

		₹	₹
1.	A Dr.	17,55,000	

	B	Dr.	6,45,000	
	C	Dr.	6,00,000	
	To Equity Share Capital A/c			30,00,000
	(Being allotment of shares to underwriters)			
2.	Underwriting commission	Dr.	2,40,000	
	To A			1,44,000
	To B			60,000
	To C			36,000
	(Being amount of underwriting commission payable)			
3.	Bank A/c*	Dr.	27,60,000	
	To A			16,11,000
	To B			5,85,000
	To C			5,64,000
	(Being net amount received from underwriters for shares allotted less underwriting commission)			

** Considering that the underwriters paid the amounts due.*

Question 3

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	*30,00,000*	*9,00,000*
9% Preference Shares of ₹ 100 each	*3,00,000*	*-*
10% Preference Shares of ₹ 100 each	*-*	*3,00,000*
General Reserve	*2,10,000*	*2,10,000*
Retirement Gratuity Fund (long term)	*1,50,000*	*60,000*
Trade Payables	*3,90,000*	*2,40,000*
Total	*40,50,000*	*17,10,000*
Assets		
Goodwill	*1,50,000*	*75,000*
Land & Buildings	*9,00,000*	*3,00,000*
Plant & Machinery	*15,00,000*	*4,50,000*

Inventories	*7,50,000*	*5,25,000*
Trade Receivables	*6,00,000*	*3,00,000*
Cash and Bank	*1,50,000*	*60,000*
Total	*40,50,000*	*17,10,000*

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17 : ₹ 90,000; 2015-16 : ₹ 78,000 and 2014-15: ₹ 72,000). The profits of 2014 -15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2018. ***(20 Marks)***

Answer

In the Books of Y Ltd.
Realisation Account

		₹		₹
To Sundry Assets :			By Retirement Gratuity Fund	60,000
Goodwill	75,000			

	Land & Building	3,00,000		By	Trade payables	2,40,000
	Plant & Machinery	4,50,000		By	X Ltd. (Purchase Consideration)	15,90,000
	Inventory	5,25,000				
	Trade receivables	3,00,000				
	Bank	60,000	17,10,000			
To	Preference Shareholders (Premium on Redemption)		30,000			
To	Equity Shareholders (Profit on Realisation)		1,50,000			
			18,90,000			18,90,000

In the Books of X Ltd.
Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	

To 9% Preference Share Capital A/c		3,30,000
To Equity Share Capital A/c		12,00,000
To Securities Premium A/c		60,000
(Being Purchase Consideration satisfied as above).		

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	2,10,000
3		**Current liabilities**		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		**Current assets**		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	

	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	**Reserves and Surplus**	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	**Long-term provisions**	
	Retirement Gratuity fund	2,10,000
4	**Trade payables** (3,90,000 + 2,40,000 - 20,000*) * *Mutual Owings eliminated.*	6,10,000
5	**Short term Provisions**	
	Provision for Doubtful Debts	7,500
6	**Tangible assets**	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	**Intangible assets**	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	**Inventories** (7,50,000 + 4,72,500)	12,22,500
9	**Trade receivables** (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	**Other current Assets**	15,000
11	**Cash and cash equivalents** (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill

	₹
Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹ 78,000 + 10,000)	88,000

Profit of 2014-15 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		**₹**
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		**15,90,000**

Question 4

(a) Astha Bank has the following Capital Funds and Assets as at 31st March, 2018:

	₹ in crores
Capital Funds:	
Equity Share Capital	*600.00*

Statutory Reserve	*470.00*
Profit and Loss Account (Dr. Balance)	*30.00*
Capital Reserve (out of which ₹ 25 crores were due to revaluation of assets and balance due to sale of assets)	*130.00*
Assets:	
Balance with other banks	*15.00*
Cash balance with RBI	*35.50*
Claim on Banks	*52.50*
Other Investments	*70.00*
Loans and Advances:	
(i) Guaranteed by government	*22.50*
(ii) Guaranteed by DICGC/ECGC	*110.00*
(iii) Other	*9,365.00*
Premises, furniture and fixtures	*92.50*
Leased assets	*40.00*
Off- Balance Sheet items:	
(i) Acceptances, endorsements and letters of credit	*1,100.00*
(ii) Guarantees and other obligations	*6,200.00*

You are required to:

(i) Segregate the capital funds into Tier I and Tier II capitals.

(ii) Find out the risk-adjusted assets and risk weighted assets ratio. ***(10 Marks)***

(b) Preeti has invested in three mutual funds. From the details given below, find out effective yield on per annum basis to Preeti in respect of each of the schemes upto 31st March, 2017:

Mutual Fund	***X***	***Y***	***Z***
Date of Investment	*1.12.2016*	*01-01-2017*	*01-03-2017*
Amount of Investment (₹)	*2,50,000*	*3,00,000*	*1,50,000*
NAV at the date of investment (₹)	*10.00*	*10.50*	*10.00*
Dividend received upto 31st March, 2017 (₹)	*4,500*	*5,700*	*Nil*
NAV as at 31st March, 2017 (₹)	*10.10*	*10.40*	*9.80*

(5 Marks)

(c) ABC Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ending 31st March, 2017:

Assets Funded	***Interest Overdue but recognised in Profit & Loss***		***Net book value of Assets outstanding***
	Paid Overdue	***Interest (₹ In lakhs)***	***(₹ In lakhs)***
Computers	*Upto 12 months*	*960.00*	*40,812.00*
Televisions	*For 20 months*	*205.00*	*4,950.00*
Washing Machines	*For 32 months*	*104.20*	*2,530.00*
Refrigerators	*For 45 months*	*53.50*	*1328.00*
Air-conditioners	*For 52 months*	*13.85*	*305.00*

You are required to calculate the amount of provision to be made. ***(5 Marks)***

Answer

(a) (i) Capital Funds –

Tier I :	***₹ in crore***
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	(30)
	1,145
Capital Funds - Tier II :	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	(13.75)
	11.25

(ii) Risk Adjusted Assets

Funded Risk Assets	**₹ in crore**	**Percentage weight**	**Amount ₹ in crore**
Cash Balance with RBI	35.50	0	—
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) guaranteed by government	22.50	0	—
(ii) guaranteed by DICGC/ECGC	110	50	55

(iii)	Others	9,365	100	9,365
	Premises, furniture and fixtures	92.50	100	92.50
	Leased Assets	40	100	40
				9,636

Off-Balance Sheet Item		*₹ in Crore*	*Credit Conversion Factor*	*₹ In Crore*
(i)	Acceptances, Endorsements and Letters of credit	1,100	100	1,100
(ii)	Guarantees and other obligations	6,200	100	6,200
				7,300

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

= (1,145 +11.25)/ (9,636 +7,300)

= (1,156.25 /16,936) x 100 = 6.83% (rounded off)

(b) Calculation of effective yield on per annum basis in respect of three mutual fund schemes of Preeti upto 31.03.2017

		X	Y	Z
1	Amount of Investment (₹)	2,50,000	3,00,000	1,50,000
2	Date of investment	1.12.2016	1.1.2017	1.3.2017
3	NAV at the date of investment (₹)	10.00	10.50	10.00
4	No. of units on date of investment [1/3]	25,000	28,571.43	15,000
5	NAV per unit on 31.03.2017 (₹)	10.10	10.40	9.80
6	Total NAV of mutual fund investments on 31.03.2017 [4 x 5]	2,52,500	2,97,143	1,47,000
7	Increase/ decrease of NAV [6-1]	2,500	(2,857)	(3,000)
8	Dividend received up to 31.3.2017	4,500	5,700	Nil
9	Total yield [7+8]	7,000	2,843	(3,000)
10	Yield % [9/1] x 100	2.80%	0.95%	(2%)
11	Number of days	121	90	31
12	Effective yield p.a. [10/11] x 365 days	8.45%	3.85%	(23.55%)

(c) Amount of provision to be made is as under:

Asset Funded			***(₹ in crore)***
Computers	(a) Where hire charges are overdue upto 12 months	Nil	-
Televisions	(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 4,950	495
Washing Machines	(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 2,530	1,012
Refrigerators	(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 1,328	929.60
Air Conditioners	(e) where hire charges or lease rentals are overdue for more than 48 months	100 percent of the net book value 305 x 100%	305
		Total	2,741.60

Question 5

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2017:

	H Ltd. (₹)	***S Ltd. (₹)***
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of ₹ 10 each)	*12,00,000*	*2,00,000*
Reserves and Surplus		
General Reserve	*4,35,000*	*1,55,000*
Profit and Loss Account	*2,80,000*	*65,000*
Current Liabilities		
Trade Payables	*3,22,000*	*1,23,000*
Total	*22,37,000*	*5,43,000*

	H Ltd. (₹)	*S Ltd. (₹)*
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	*6,40,000*	*1,80,000*
Furniture	*3,75,000*	*34,000*
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	*3,20,000*	*-*
Current Assets		
Inventories	*2,68,000*	*62,000*
Trade Receivables	*4,70,000*	*2,35,000*
Cash and Bank	*1,64,000*	*32,000*
Total	*22,37,000*	*5,43,000*

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April,2016 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives : Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet as at 31st March, 2017.

(20 Marks)

Answer

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2017

Particulars	***Note No.***	***(₹)***
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200

	(2) Minority Interest (W.N.4)		99,300
	(3) Current Liabilities		
	(a) Trade Payables	2	4,10,000
	Total		25,25,500
II.	Assets		
	(1) Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	3	13,10,500
	(ii) Intangible assets	4	24,000
	(b) Current assets		
	(i) Inventories	5	3,25,000
	(ii) Trade Receivables	6	6,70,000
	(iii) Cash at Bank	7	1,96,000
	Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Tangible Assets			
	Machinery			
	H. Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		

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

Working Notes:

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2016

	₹
Machinery	
Revaluation as on 1.4.2016	3,00,000
Less: Book value as on 1.4.2016	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2016	30,000
Less: Book value as on 1.4.2016	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

	Machinery	*Furniture*
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2017

	Pre-acquisition profit upto 1.4.2016	*Post-acquisition profits (1.4.2016 – 31.3.2017)*	
	(Capital profits)	*General Reserve*	*Profit and loss account*
General reserve as on 31.3.2017	50,000	1,05,000	
Profit and loss account as on 31.3.2017	30,000		35,000
Upward Revaluation of machinery as on 1.4.2016	1,00,000		
Downward Revaluation of Furniture as on 1.4.2016	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

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

** considered that ₹ 55,000 is cost to H Ltd. Alternative solution considering it as cost to S Ltd. is also possible*

5. Cost of Control or Goodwill

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

Question 6

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

(a) *Suvidhi Ltd. offered 50 shares to each of its 1500 employees on 1st April 2017 for ₹ 30. Option would be exercisable within a year it is vested. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is ₹ 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 38 per share.*

On 31st March, 2018,1200 employees accepted the offer and paid ₹ 30 per share purchased. Nominal value of each share is ₹ 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(b) *Describe the different types of marine losses.*

(c) *How is Minimum Alternative Tax (MAT) to be presented in the financial statements?*

(d) *From the following data find out the leverage effect on Goodwill :*

(i) *Current cost of capital employed - ₹ 12,48,000*

(ii) *Profit earned after current cost adjustment - ₹ 2,20,000*

(iii) *12% long term secured loan - ₹ 5,40,000*

(iv) *Normal rate of return :*

On equity capital employed - 16.20%

On long term capital employed - 14.25%

(e) *In a liquidation which commenced on 11th November, 2017 certain creditors could not receive payments out of the realization of assets and out of the contributions from "A" list contributories.*

The following are the details of certain transfer, which took place in 2016 and 2017:

Share holders	***Number of shares transferred at the date of ceasing to be member***	***Date of ceasing to be member***	***Creditors remaining unpaid and outstanding (₹)***
C	*2,500*	*1st September, 2016*	*5,000*

P	*1,500*	*1st January, 2017*	*9,000*
D	*2,000*	*1st April, 2017*	*12,000*
B	*700*	*1st August, 2017*	*13,500*
S	*300*	*15th September, 2017*	*14,500*

All the shares were ₹ 10 each, ₹ 5 paid up.

Ignoring expenses of and remuneration to liquidators show the amount to be realised from various persons listed above. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Journal Entries in the books of Suvidhi Ltd.

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

Working Note:

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

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

Fair value of ESOP which will be recognized as expenses in the year 2017-2018

= 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2017-2018 = ₹ 4,80,000

(b) Marine losses may be broadly of two types –

(i) ***Total Loss**:* When the subject matter of insurance, *i.e.,* cargo, ship, freight etc. is totally lost, it is known as a 'total loss'. Total loss is also of two types:

(a) ***Actual Total Loss*** - When the subject-matter of insurance is absolutely destroyed or totally lost to the insured, it is known as actual total loss.

(b) ***Constructive Total Loss*** - When the subject matter is not actually totally lost but is lost for all practical purposes *e.g.,* where the ship or cargo is reasonably abandoned and taken as lost or expenses to be incurred for saving the cargo or the ship are expected to be more than the value thereof, it is known as constructive total loss.

(ii) ***Partial Loss**:* When only a part of the subject matter is lost, it is known as partial loss. This loss may also be of two types as discussed below :

(a) ***General Average Loss*** **-** Such a loss is caused by extraordinary voluntary sacrifice made or expenditure incurred with the objective of protecting the interests of all owners in a voyage. An example of this type of loss is when the ship has run aground and part of the cargo is to be jettisoned to lighten the ship to save it as well as the cargo from total loss.

(b) ***Particular Average Loss*** **-** It is a partial loss of the subject matter of insurance caused by a peril against which it is insured but which is not a general average loss.

(c) MAT is treated as the current tax. The tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the profit and loss account in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, the said asset should be created by way of a credit to the profit and loss account and presented as a separate line item therein.

MAT credit should be presented under the head under the head 'Non-current Assets' sub head 'Long-term Loans and Advances' as per Schedule III to the Companies Act, 2013 considering that there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in the Guidance Note.

(d)

			₹
A	Profit for equity fund after current cost adjustment		2,20,000
B	Profit (as per Long-term fund approach)		
	Profit for equity fund	2,20,000	
	Add: Interest on Long-term loan (5,40,000 x 12%)	64,800	2,84,800
c	Current cost of capital employed (by Equity approach)		12,48,000
d	Capital employed as per Long-term fund approach		
	Current cost of capital employed (by Equity approach)	12,48,000	
	Add: 12% Long term loan	5,40,000	17,88,000
e	Value of Goodwill		
	(A) By Equity Approach		
	Capitalised value of Profit as per equity approach = (2,20,000/16.20%)		13,58,025
	Less: Capital employed as per equity approach		(12,48,000)
	Value of Goodwill		**1,10,025**
	(B) By Long-Term Fund Approach		
	Capitalized value of Profit as per Long-term fund approach = (2,84,800/14.25%)		19,98,596*
	Less: Capital employed as per Long-term fund approach		(17,88,000)
	Value of Goodwill		**2,10,596**

Leverage effect on Goodwill:

Adverse Leverage effect on goodwill is ₹ 1,00,571 (i.e. ₹ 2,10,596 – ₹ 1,10,025)

** Rounded off*

(e) Statement of Liabilities of B list contributors (showing the amount realized)

Creditors Outstanding on the date of ceasing to be member	**P 1,500 Shares ₹**	**D 2,000 Shares ₹**	**B 700 Shares ₹**	**S 300 Shares ₹**	**Amount to be paid to the Creditors ₹**
(1) 9,000	3,000	4,000	1,400	600	9,000
(2) 3,000	-	2,000	700	300	3,000

(3) 1,500	-	-	1,050	450	1,500
(4) 1,000	-	-	-	1,000	150
Total (a)	3,000	6,000	3,150	2,350	
(b) maximum liability on shares held	7,500	10,000	3,500	1,500	
(c) Amount to be realized (a) or (b) whichever is lower	3,000	6,000	3,150	1,500	

Working Notes:

1. C will not be liable since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 01.01.2017 (from the date when he ceases to be a member). Similarly, D & B will not be liable for the debts incurred after the date of their transfer of shares.
3. The increase between 1st August 2017 and 15th September 2017, is solely the responsibility of S. Liability of S has been restricted to the maximum allowable limit of ₹ 1,500. Therefore, amount payable by S on 15.09.2017 is ₹ 150 only.
4. Ratio of discharge of liability will be in the ratio of no. of shares held by B List Contributories which is as follows:

Calculation of Ratio for discharge of Liabilities

Date	Cumulative liability ₹	Increase in liabilities ₹	Ratio of no. of shares held by L, M, N, O
01.01.2017	9,000	-	15:20:7:3
01.04.2017	12,000	3,000	20:7:3
01.08.2017	13,500	1,500	7:3
15.09.2017	14,500	1,000	Only S