

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

Answer the following questions :

- (a) (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. ₹ 50 Lakh ₹ 60 Lakh and ₹ 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS- 7, whether AP Ltd., should treat it as a single contract or three separate contracts.

- (ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2018, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provisions of AS-7?

- (b) Given below are the following informations of B.S. Ltd.

- (i) Goods of ₹ 50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.
- (ii) On 13-01-2018 goods of ₹ 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.
- (iii) ₹ 1,00,000 worth of goods were sold on approval basis on 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9.

- (c) Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹ 11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays ₹ 3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of ₹ 70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value

will be only ₹25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively. Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

(d) Identify the related parties in the following cases as per AS-18

(i) Maya Ltd. holds 61 % shares of Sheetal Ltd.

Sheetal Ltd. holds 51 % shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

(Give your answer - Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)

(ii) Mr. Subhash Kumar is Managing Director of A Ltd. and also holds 72% capital of B Ltd.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) (i) As per AS 7 'Construction Contracts', when a contract covers a 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.

Therefore, Mr. AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	<u>15.10</u>
Total estimated cost of construction	<u>47.60</u>

Percentage of completion till date to total estimated cost of construction

$$= (32.50/47.60) \times 100 = 68.28\%$$

Proportion of total contract value recognised as revenue for the year ended 31st March, 2018 per AS 7 (Revised)

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹ 45 \text{ lakh} \times 68.28\% = ₹ 30.73 \text{ lakhs.}$$

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	(45.00)
Total foreseeable loss to be recognized as expense	2.60

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

- (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:
- 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
 - 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, 2018.

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, 2018 in the books of B.S. Ltd.

- (c) 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.

(d) (i) (a) Reporting entity- Maya Ltd.

- Sheetal Ltd. (subsidiary) is a related party
- Fair Ltd.(subsidiary) is a related party

(b) Reporting entity- Sheetal Ltd.

- Maya Ltd. (holding company) is a related party
- Fair Ltd. (subsidiary) is a related party

(c) Reporting entity- Fair Ltd.

- Maya Ltd. (holding company) is a related party
- Sheetal Ltd. (holding company) is a related party
- Care Ltd. (investor/ investing party) is a related party

(d) Reporting entity- Care Ltd.

- Fair Ltd. (associate) is a related party

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

- (ii) Mr. Subhash Kumar is Key management personnel as he has the authority for planning, directing and controlling the activities of A Ltd. He also holds substantial interest in B Ltd. as he holds 72% capital of B Ltd. Thus, Mr. Subhash is related party for both A Ltd. and B Ltd. Moreover, as per the definition of related party relationship described in para 3 of AS 18, enterprises over which Subhash is able to exercise significant influence are also related parties. Thus, A Ltd. and B Ltd. will also be construed as related to each other.

Question 2

- (a) Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In ₹
Share Capital	
Equity Shares of ₹10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	<u>15,50,000</u>
	<u>93,00,000</u>
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	<u>34,50,000</u>
	<u>93,00,000</u>

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2018 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

- (b) *Aarohi Ltd. made a public issue of 11,00,000 equity shares of ₹ 10 each at a premium of ₹ 10, the amounts payable on application were ₹ 4 along with the full amount of premium and ₹ 6 at allotment. Out of the above 1,00,000 equity shares were issued to promoters and the balance was offered to the public which was underwritten by three underwriters Ashish, Alok and Ajay as follows:*

Ashish - 4,00,000 shares including firm underwriting 80,000 shares

Alok - 3,00,000 shares including firm underwriting 30,000 shares

Ajay - 3,00,000 shares including firm underwriting 1,10,000 shares

Total subscriptions received by Aarohi Ltd. were 1,50,000 shares (excluding firm underwriting and marked applications)

The marked applications (excluding firm underwriting) were:

Ashish - 97,500 shares,

Alok - 1,95,000 shares and

Ajay - 1,48,500 shares.

Underwriters are entitled to maximum commission permissible by law on the issue price of shares. The underwriting contract provides that benefit of firm underwriting is to be given to individual underwriters. You are required to :

- (i) Determine the liability of each underwriter in number of shares;*
- (ii) Compute the amounts payable to or due from underwriters; and*
- (iii) Pass Journal Entries in the books of the company relating to underwriting.*

(10+10= 20 Marks)

Answer

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

1. Shares Outstanding Test

<i>Particulars</i>	<i>(Shares)</i>
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)	<u>28,00,000</u>
Shareholders' funds (₹)	<u>45,00,000</u>
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 (₹) (22,50,000+8,50,000+15,50,000)	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

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

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, 2018.

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

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

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

by solving the above equation, we get

$$x = ₹ 5,43,750$$

$$y = ₹ 16,31,250$$

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

	(In shares)			
	Ashish	Alok	Ajay	Total
Gross liability (excluding promoters)	4,00,000	3,00,000	3,00,000	10,00,000
Less: Marked applications (excluding firm underwriting)	(97,500)	(1,95,000)	(1,48,500)	(4,41,000)
	3,02,500	1,05,000	1,51,500	5,59,000
Less: Unmarked applications in the ratio of gross liabilities of 4:3:3 (excluding firm underwriting)	(60,000)	(45,000)	(45,000)	(1,50,000)
	2,42,500	60,000	1,06,500	4,09,000
Less: Firm underwriting	(80,000)	(30,000)	(1,10,000)	(2,20,000)
	1,62,500	30,000	(3,500)	1,89,000

Less: Surplus of Ajay adjusted in Ashish and Alok in Gross liability Ratio 4:3	(2,000)	(1,500)	3,500	
Net liability	1,60,500	28,500	-	1,89,000
Add: Firm underwriting	80,000	30,000	1,10,000	2,20,000
Total liability	2,40,500	58,500	1,10,000	4,09,000

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

	Ashish	Alok	Ajay	Total
Total Liability in shares	2,40,500	58,500	1,10,000	4,09,000
Amount receivable @ ₹ 20 from underwriter (in ₹)	48,10,000	11,70,000	22,00,000	81,80,000
Less: Amount paid for firm underwriting* at ₹ 14 per share (including share premium)	11,20,000	4,20,000	15,40,000	30,80,000
Balance due from underwriters	36,90,000	7,50,000	6,60,000	51,00,000
Less: Underwriting Commission payable @ 5% of ₹ 20 (in ₹)	(4,00,000)	(3,00,000)	(3,00,000)	(10,00,000)
Net amount receivable (in ₹)	32,90,000	4,50,000	3,60,000	41,00,000

* Assuming that Application money has been paid by the underwriters

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

		₹	₹
Bank A/c		30,80,000	
To equity share application A/c			30,80,000
(Being application money received on firm undertaking of 2,20,000 shares at ₹ 14 per share)			
Ashish	Dr.	36,90,000	
Alok	Dr.	7,50,000	
Ajay	Dr.	6,60,000	
Equity share application A/c	Dr.	30,80,000	
To Share Capital A/c			40,90,000
To Securities Premium A/c			40,90,000
(Being allotment of shares to underwriters)			

Underwriting commission A/c	Dr.	10,00,000	
To Ashish			4,00,000
To Alok			3,00,000
To Ajay			3,00,000
(Being amount of underwriting commission payable)			
Bank A/c*	Dr.	41,00,000	
To Ashish			32,90,000
To Alok			4,50,000
To Ajay			3,60,000
(Being net amount received by underwriters for shares allotted less underwriting commission)			

* Considering net amount received from underwriters.

Question 3

- (a) The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	<u>5,00,000</u>	<u>3,00,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	<u>2,20,000</u>	<u>80,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	<u>1,20,000</u>	<u>40,000</u>
	<u>8,40,000</u>	<u>4,20,000</u>
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	<u>60,000</u>	<u>50,000</u>
	<u>5,00,000</u>	<u>3,00,000</u>

Fixed Assets of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

- (i) VT Ltd. will issue 16 Equity Shares of ₹10 each at par against 12 Shares of MG Ltd.
- (ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹100 each, at par, in VT. Ltd.
- (iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.
- (iv) ₹60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes ₹20,000 due from VT Ltd.

You are required to prepare :

- (1) Journal entries in the books of VT Ltd.
 - (2) Statement of consideration payable by VT Ltd.
- (b) BT Ltd. went into Voluntary Liquidation on 31st March, 2018, when their detailed Balance Sheet was as follows:

Liabilities	In ₹
Issued & Subscribed Capital	
10,000 12% cumulative preference shares of ₹100 each, fully paid	10,00,000
10,000 Equity Shares of ₹100 each 75 per share paid up	7,50,000

20,000 Equity Shares of ₹100 each 60 per share paid up	12,00,000
Profit & Loss Account	(5,25,000)
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	<u>8,50,000</u>
	<u>43,95,000</u>
Assets	
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	<u>75,700</u>
	<u>43,95,000</u>

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of ₹75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under:

	In ₹
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

- Expenses of liquidation amounted to ₹45,000.
- The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank).
- All payments were made on 30th June, 2018.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2018. Working Notes should form part of the answer. **(10+ 10=20 Marks)**

Answer**(a) (i) Journal Entries in the Books of VT Ltd.**

		<i>Dr.</i> ₹	<i>Cr.</i> ₹
Fixed Assets To Revaluation Reserve (Revaluation of fixed assets at 15% above book value)	Dr.	2,10,000	2,10,000
Reserve and Surplus To Equity Dividend (Declaration of equity dividend @ 10%)	Dr.	1,20,000	1,20,000
Equity Dividend To Bank Account (Payment of equity dividend)	Dr.	1,20,000	1,20,000
Business Purchase Account To Liquidator of MG Ltd. (Consideration payable for the business taken over from MG Ltd.)	Dr.	9,80,000	9,80,000
Fixed Assets (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 – ₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of			

net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd. To Equity Share Capital To 10% Preference Share Capital (Discharge of consideration for MG Ltd.'s business)	Dr.	9,80,000	8,00,000 1,80,000
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%) Discount on Issue of Debentures To 12% Debentures (Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)	Dr. Dr.	3,24,000 36,000	3,60,000
Sundry Creditors To Sundry Debtors (Cancellation of mutual owing)	Dr.	20,000	20,000
Goodwill To Bank (Being liquidation expenses reimbursed to MG Ltd.)	Dr.	60,000	60,000
Capital Reserve/P&L A/c To Goodwill (Being goodwill set off)	Dr.	60,000	60,000

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted $60,000/12 \times 16 = 80,000$ shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e. ₹ 8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ 2,00,000 × 90/100 ₹ 1,80,000 (ii)

Consideration amount [(i) + (ii)] ₹ 9,80,000

(b)

BT Limited

Liquidator's Statement of Account

Receipts		₹	Payments		₹
To Assets realized:			By Liquidation expenses		45,000
Bank		75,700	By Preferential creditors		75,000

Other assets:			By Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By Debenture holders:		
Plant & Machinery	9,00,000		Debentures	10,00,000	
Furniture	2,85,000		Interest accrued	1,20,000	
Patents	90,000		Interest 1-4-18 to 30-6-18	<u>30,000</u>	11,50,000
Stock	2,80,000		By Unsecured creditors		7,36,250
Trade receivables	<u>3,15,000</u>	43,20,000	By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	<u>1,20,000</u>	<u>11,20,000</u>
			By Equity shareholders -		32,55,850
			₹ 32.995 on 20,000 shares		6,59,900
			₹ 47.995 on 10,000 shares		<u>4,79,950</u>
		<u>43,95,700</u>			<u>43,95,700</u>

Working Notes:

- (1) Liquidator's remuneration $43,20,000 \times 3/100 = ₹ 1,29,600$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2018 to 30-6-2018
 $10,00,000 \times 12\% \times 3/12 = ₹ 30,000$
- (3) Total equity capital - paid up (7,50,000 + 12,00,000) ₹ 19,50,000
 Less: Balance available after payment to unsecured and preference shares
 (43,95,700 — 32,55,850) ₹ (11,39,850)
₹ 8,10,150
- Loss to be born by 30,000 equity shares
- Loss per share ₹ 27.005
- Hence, Refund for share on ₹ 60 paid share (60 - 27.005) ₹ 32.995
- Refund for share on ₹ 75 paid (75 - 27.005) ₹ 47.995

Question 4

- (a) (i) The following is an extract of Trial Balance of SM Bank, an overseas bank as on 31st March, 2018.

	Dr. ₹	Cr. ₹
Bill Discounted	15,16,800	

Discount Received	1,26,859
Rebate on Bills discounted not due on 31 st March, 17	26,592

An analysis of bill discounted is as follows :

Amount in ₹	Due Date	Rate of Discount
1,46,200	4 th May, 2018	15
2,30,400	12 th May, 2018	15
4,35,900	28 th May, 2018	15
4,36,200	18 th June, 2018	16
2,68,100	4 th July, 2018	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2018 and show necessary Journal Entries.

(ii) The following information are also given for SM Bank :

Assets	₹ in Lakhs
Standard	75,00
Sub-Standard	60,00
Doubtful: for 1 Year (fully secured)	12,00
for 1 to 3 Year (fully secured)	9,00
for more than 3 Years	9,00
Loss Assets	15,00

Additional Information:

- (1) Standard Assets includes ₹ 15,00 Lakhs Advances to Commercial Real Estate (CRE).
- (2) Out of ₹ 60,00 Lakhs of Sub-Standard Asset ₹ 20,00 Lakhs are unsecured. Unsecured amount includes ₹ 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.
- (3) Doubtful Asset for more than 3 Years includes ₹ 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is ₹ 150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of SM Bank.

- (b) Babu Bhai Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2018:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(₹ In crore)	(₹ In crore)
LCD Televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

You are required to calculate the amount of provision to be made.

- (c) From the following information given by M/s Short Live Insurance Co. Ltd., you are required to pass necessary Journal Entries relating to Unexpired Risk Reserve.
- (i) On 31.03.2017, it had reserve for unexpired risks amounting to ₹ 160 crores. Its composition was as under:
- ₹ 60 crores in respect of Marine Insurance Business
 - ₹ 80 crores in respect of Fire Insurance Business
 - ₹ 20 crores in respect of Misc. Insurance Business
- (ii) M/s Short Live Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine Insurance Business and 50% of net premium income in respect of Fire and Misc. income policies.
- (iii) During 2017-18, the following business was conducted:

₹ In crores

Premium Collected From:	Marine	Fire	Misc.
Insured in respect of Policies issued	72	172	48
Other Insurance Companies in respect of risks undertaken	28	20	16
Premium paid/payable to other insurance companies on business ceded	40	20	30

(10+5+5=20 Marks)

Answer

(a) (i)

Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2018	Rate of discount	Discount Amount
1,46,200	4.5.18	(30+ 4) = 34	15%	2,043
2,30,400	12.5.18	(30+12) = 42	15%	3,977
4,35,900	28.5.18	(30+28) = 58	15%	10,390
4,36,200	18.6.18	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.18	(30+ 31+30+4) = 95	16%	11,165
15,16,800	Rebate on bills discounted on 31.3.2018			42,681

In the books of SM Bank Ltd.**Journal Entries**

(i)	Rebate on bills discounted Account	Dr.	26,592	
	To Discount on bills Account			26,592
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
(ii)	Bills purchased & discounted Account	Dr.	15,16,800	
	To Discount on bills Account			1,26,859
	To Clients Account			13,89,941
	(Being bills purchased and discounted during the year)			
(iii)	Discount on bills Account	Dr.	42,681	
	To Rebate on bills discounted Account			42,681
	[Being provision made on 31 st March, 2018]			
(iv)	Discount on bills Account	Dr.	1,10,770	
	To Profit and loss Account			1,10,770
	[Being transfer of discount on bills, of the year, to profit and loss account]			

Credit to Profit and Loss A/c will be as follows:

$$₹ (1,26,859 + 26,592 - 42,681) = ₹ 1,10,770$$

(ii) Statement showing the amount of provisions on Assets

(₹ in lakhs)			
Assets	Amount	% of provision	Provision
Standard:			
Advances to CRE	15,00	1	15
Others	60,00	.4	24
Sub-standard:			
Secured	40,00	15	6,00
Unsecured- Others	15,00	25	3,75
Unsecured infrastructure	5,00	20	1,00
Doubtful Secured:			
up to one year	12,00	25	3,00
For more than 1 year up to 3 years	9,00	40	3,60
More than 3 years	4,00	W.N.1	2,75
Doubtful unsecured (more than 3 years)	5,00	100	5,00
Loss	15,00	100	15,00
Total Provision Required			40,49

Working Note:

Provision required where assets are ECGC covered

	₹ In Lakhs
Outstanding balance (ECGC Covered)	4,00
Less: Value of security	1,50
Unrealised balance	2,50
Less: ECGC Cover @ 50%	1,25
Net Unsecured Balance	1,25
Provision for unsecured portion @100%	1,25
Provision for secured portion @100%	1,50
Total Provision to be made	2,75

- (b) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

(₹ in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500
(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 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	100
	Total	1,220

- (c) Journal of M/s Short Live Insurance Co. Ltd. (₹ in crores)

		Dr.	Cr.
1 April, 2017	Unexpired Risks Reserve A/c (Fire)	60	
	Unexpired Risks Reserve A/c (Marine)	80	
	Unexpired Risks Reserve A/c (Misc)	20	
	To Fire Revenue A/c		60
	To Marine Revenue A/c		80
	To Miscellaneous Revenue A/c		20
	(Being opening balances ts/f to Revenue Accounts)		
March, 31 2018	Marine Revenue A/c Dr.	60	
	To Unexpired Risks Reserve A/c		60
	(Being the required closing balance of ₹ 60 crores (72 + 28 – 40) charged to marine revenue account)		
	Fire Revenue A/c Dr.	86	

	To Unexpired Risks Reserve A/c Being the required closing balance of ₹ 86 crores $[(172 + 20 - 20)/2]$ charged to fire revenue account)		86
	Miscellaneous Revenue A/c	Dr.	17
	To Unexpired Risks Reserve A/c (Being the required closing balance of ₹ 17 crores $[(48 + 16 - 30)/2]$ charged to misc. revenue account)		17

Note: Alternative solution without reversing the opening balances of unexpired risk reserves and passing entry only for the net amount to be transferred from P&L A/c after adjusting opening balances is also possible.

Question 5

- (a) H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2016 and 2017, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

- (b) The summarized Balance Sheet of T Ltd. for the year ended on 31st March, 2016, 2017 and 2018 are as follows:

	(₹ in thousands)		
Liabilities	31.03.2016	31.03.2017	31.03.2018
1,60,000 equity shares of ₹ 10 each, fully paid	1,600	1,600	1,600
General Reserve	1,200	1,400	1,600
Profit and Loss Account	140	160	240
Trade Payable	600	800	1,000
	3,540	3,960	4,440

Assets:			
Goodwill	1,000	800	600
Building & Machinery less depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivable	20	160	440
Bank Balance	<u>120</u>	<u>200</u>	<u>400</u>
	3,540	3,960	4,440

Additional Information :

(i) Actual Valuations were as under:

Building & Machinery less depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net Profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

- (ii) Capital employed in the business at market value at the beginning of 2015-16 was ₹36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12.5%.
- (iii) The balance in the general reserve on 1st April, 2015 was ₹10 lakhs.
- (iv) The goodwill shown on 31.03.2016 was purchased on 1.4.2015 for ₹ 10 lakhs on which date the balance in the Profit & Loss account was ₹1,20,000.

You are required to find out the average capital employed in each year. Also, compute Goodwill, to be valued at 5 year's purchase of Super profit (Simple average method).

(10 + 10 = 20 Marks)

Answer

- (a) The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Profit / (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition 1.1.2011		1,62,000 (W.N.)	-			
2011	(1,25,000)	<u>(37,500)</u>	(87,500)			1,22,000 (W.N.)
Balance		1,24,500				
2012	(2,00,000)	<u>(60,000)</u>	(1,40,000)			1,22,000
Balance		64,500				
2013	(2,50,000)	<u>(75,000)</u>	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co.	<u>10,500</u>	<u>(10,500)</u>	10,500	10,500	
Balance		Nil	<u>(1,85,500)</u>			
2014	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance		Nil	<u>(60,000)</u>			
2015	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
Balance		Nil	<u>25,000</u>			
2016	50,000	15,000	35,000	(15,000)	6,000	1,22,000

		<u>(15,000)</u>	<u>15,000</u>			
Balance		<u>Nil</u>	<u>50,000</u>			
2017	75,000	22,500	52,500	(6,000)	Nil	1,22,000
		<u>(6,000)</u>	<u>6,000</u>			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2011

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	<u>28,000</u>	<u>12,000</u>
		3,78,000	<u>1,62,000</u>
Less: Cost of investment		<u>(5,00,000)</u>	
Goodwill		<u>1,22,000</u>	

(b) Capital Employed at the end of each year

₹ in thousand

	31.3.2016 ₹	31.3.2017 ₹	31.3.2018 ₹
Goodwill*	1,000	800	600
Building and Machinery (Revaluation)	1,800	2,000	2,200
Inventory (Revalued)	1,200	1,400	1,600
Trade Receivables	20	160	440
Bank Balance	<u>120</u>	<u>200</u>	<u>400</u>
Total Assets	4,140	4,560	5,240
Less: Trade Payables	<u>(600)</u>	<u>(800)</u>	<u>(1,000)</u>
Closing Capital	3,540	3,760	4,240
Add: Opening Capital	<u>3,660</u>	<u>3,540</u>	<u>3,760</u>
Total	<u>7,200</u>	<u>7,300</u>	<u>8,000</u>
Average Capital	3,600	3,650	4,000

*Since the goodwill has been purchased, it is taken as a part of Capital employed.

Valuation of Goodwill

	31.3.2016	31.3.2017	31.3.2018
(i) Future Maintainable Profit			
Net Profit as given	420	620	820
Less: Opening Balance	(120)	(140)	(160)
Adjustment for Valuation of Opening Inventory	-	(200)	(200)
Add: Adjustment for Valuation of closing inventory	200	200	200
Goodwill written off	-	200	200
Transferred to General Reserve	<u>200</u>	<u>200</u>	<u>200</u>
Future Maintainable Profit	700	880	1060
Less: 12.50% Normal Return	<u>(450)</u>	<u>(456.25)</u>	<u>(500)</u>
(ii) Super Profit	250	423.75	560

(iii) Average Super Profit = ₹ (250+423.75+560) ÷ 3 = ₹ 411.25 (thousand).

(iv) Value of Goodwill at five years' purchase = ₹ 411.25 × 5 = ₹ 2056.25 (thousand).

Question 6

Answer any **four** of the following :

- (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company.
- (b) Bee Ltd. has its share capital divided into Equity Shares of ₹ 10 each. On 1st April, 2017, the company offered 250 shares to each of its 520 employees at ₹ 60 per share, when the market price was ₹ 150 per share. The options were to be exercised between 01-03-2018 to 31-03-2018.

410 employees accepted the offer and paid ₹ 60 per share on purchased shares and the remaining options lapsed.

The company closes its books on 31st March every year.

You are required to show Journal Entries (with narrations) as would appear in the books of Bee Ltd. for the year ended 31st March, 2018 with regard to employees stock options.

- (c) Zest Ltd. gives the following information about its past profits:

Year.	Profit before Tax (₹ In '000)
2014-15	1,42
2015-16	2,70
2016-17	3,00
2017-18	2,75

Additional informations are given as below

- (i) In Year 2014-15, Zest Ltd, earned an extraordinary income of ₹ 25,000 due to a foreign contract.
- (ii) In September 2016, there was an earthquake, due to which the company lost property worth ₹ 50,000 and it was not covered by any Insurance Policy.
- (iii) There is a 10% Non-Trading Investment of ₹ 5,00,000 which was purchased at par by the company on 1st April, 2016.
- (iv) Income tax rate is 35%.
- (v) Capital Employed as on 31st March, 2018 is ₹ 6,00,000.
- (vi) Normal rate of return for the industry in which the company is engaged is 20%.

You are required to calculate the value of Goodwill at three years purchase of super profits. Consider simple average profits for calculation of Goodwill.

- (d) A Mutual Fund purchased 20,000 debentures of a company on June 1, 2017 for ₹ 21.40 lakh and further 10,000 debentures on 1st November, 2017 for ₹ 10.90 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31st March and 30th September. On Feb 28, 2018 the fund sold 12,000 of these debentures for ₹ 13.56 lakh. Nominal value per debenture is ₹ 100.

Show Investment in Debentures A/c in books of the Mutual Fund.

- (e) What do you mean by 'Accrual' in reference to AS-1? Also, specify any three reasons for 'Accrual Basis of Accounting'. **(4 Parts x 5 Marks = 20 Marks)**

Answer

(a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three are involved.	At least two companies are involved.	Only two companies are involved.
Number of new resultant companies	Only one resultant company is formed. Two companies are wound up.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes

	up to form a single resultant company.		over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

(b) **Journal Entries in the books of Bee Ltd.**

			₹	₹
1.3.18	Bank A/c (1,02,500 x ₹ 60)	Dr.	61,50,000	
to	Employee compensation expense A/c	Dr.	92,25,000	
31.3.18	(1,02,500 x ₹ 90)			10,25,000
	To Equity share capital A/c (1,02,500 x ₹ 10)			
	To Securities premium A/c (1,02,500 x ₹ 140)			1,43,50,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.18	Profit and Loss A/c	Dr.	92,25,000	
	To Employee compensation expense A/c			92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

(c) **Future maintainable profit**

	2014-15 ₹	2015-16 ₹	2016-17 ₹	2017-18 ₹
Profit before tax	1,42,000	2,70,000	3,00,000	2,75,000
Less: Extraordinary income due to foreign contract	(25,000)			
Add: Loss due to earthquake			50,000	
Less: Income from non-trading investments			(50,000)	(50,000)
	<u>1,17,000</u>	<u>2,70,000</u>	<u>3,00,000</u>	<u>2,25,000</u>

Simple average profits profit before tax = $9,12,000/4$ = ₹ 2,28,000

Less: Income tax @ 35%	=	₹ 79,800
		<u>1,48,200</u>

Valuation of Goodwill on Super Profits Basis

	Rs
Future maintainable profits	1,48,200
Less: Normal profits (20% of ₹ 6,00,000 lakhs)	<u>(1,20,000)</u>
Super profits	<u>28,200</u>

Goodwill at 3 years' purchase of super profits = 3 x ₹ 28,200 lakhs = ₹ 84,600 lakhs

(d) Investment in Debentures Account

		₹ Lakh			₹ Lakh
June 1, 2017	To Bank	21.40	June 1, 2017	By Interest Recoverable (Note 1)	0.40
Nov 1, 2017	To Bank	10.90	Nov 1, 2017	By Interest Recoverable (Note 2)	0.10
Feb 28, 2018	To Interest Recoverable (Note 3)	0.60	Feb 28, 2018	By Bank	13.56
Feb 28, 2018	To Profit on disposal (Note 4)	0.24	Mar 31, 2018	By Balance c/d	19.08
		<u>33.14</u>			<u>33.14</u>

Working Notes:

Note 1: $20,000 \times 100 \times 12/100 \times 2/12$ = ₹ 0.40 Lakhs

Note 2: $10,000 \times 100 \times 12/100 \times 1/12$ = ₹ 0.10 Lakhs

Note 3: $12,000 \times 100 \times 12/100 \times 5/12$ = ₹ 0.60 Lakhs

Note 4: Cost of investments (per unit) = $[(21,40,000 - 40,000) + (10,90,000 - 10,000)]/30,000$ units

= $[21,00,000 + 10,80,000]/30,000$ = ₹ 106

Cost of investments sold = ₹ 106 x 12,000 = ₹ 12,72,000

Sale proceeds = ₹ 13,56,000 - ₹ 60,000 (interest) = ₹ 12,96,000

Profit = ₹ 12,96,000 - ₹ 12,72,000 = ₹ 24,000

- (e) The term “Accrual” has been explained in the AS 1 on Disclosure of Accounting Policies, as “Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate”

Reasons for Accrual Basis of Accounting

1. Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.
2. Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.
3. The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.
4. Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in the future.
5. Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.