

## 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) Rajendra undertook a contract ₹ 20,00,000 on an arrangement that 80% of the value of work done, as certified by the architect of the contractee should be paid immediately and that the remaining 20% be retained until the Contract was completed.

In Year 1, the amounts expended were ₹ 8,60,000, the work was certified for ₹ 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the Contract would be ₹ 10,00,000.

In Year 2, the amounts expended were ₹ 4,75,000. Three-fourth of the work under contract was certified as done by December 31st and 80% of this was received accordingly. It was estimated that future expenditure to complete the Contract would be ₹ 4,00,000.

In Year 3, the amounts expended were ₹ 3,10,000 and on June 30th, the whole Contract was completed.

Show how Contract revenue would be recognized in the P & L A/c of Mr. Rajendra each year.

- (b) Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:

Year	1	2	3	4	5
Cash Flows (₹ in lacs)	300	300	300	150	150

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5<sup>th</sup> year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.

- (c) The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:

(₹ in Lacs)

Division	A	B	C	D	Total
Segment Revenue	100	300	200	400	1,000
Segment Result	45	-70	80	-10	45
Segment Assets	39	51	48	12	150

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.

- (d) From the following details of Aditya Limited for accounting year ended on 31st March, 2020:

Particulars	₹
Accounting profit	15,00,000
Book profit as per MAT	7,50,000
Profit as per Income tax Act	2,50,000
Tax Rate	20%
MAT Rate	7.5%

Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.

**(4 Parts X 5 Marks = 20 Marks)**

### Answer

#### (a) Year 1

₹

Actual expenditure	8,60,000
Future estimated expenditure	<u>10,00,000</u>
Total Expenditure	<u>18,60,000</u>

$$\% \text{ of work completed} = \frac{8,60,000}{18,60,000} \times 100 = 46.24\% \text{ (rounded off)}$$

$$\begin{aligned} \text{Revenue to be recognized} &= 20,00,000 \times 46.24\% \\ &= ₹ 9,24,800 \end{aligned}$$

#### Year 2

Actual expenditure	4,75,000
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Future Expenditure	4,00,000
Expenditure incurred in Year 1	<u>8,60,000</u>
	<u>17,35,000</u>
% of work completed	$= \frac{4,75,000 + 8,60,000}{17,35,000} = 76.95\%$ (rounded off)

Revenue to be recognized (cumulative) = 20,00,000 x 76.95%

= 15,39,000

Less: revenue recognized in Year 1 = ( 9,24,800 )

Revenue to be recognized in Year 2 ₹ 6,14,200

### Year 3

Whole contract got completed therefore total contract value less revenue recognized up to year 2 will be amount of revenue to be recognized in year 3 i.e. 20,00,000 – 15,39,000 (9,24,800 + 6,14,200) = ₹ 4,61,000.

*Note: Calendar year has been considered as accounting year.*

### (b) Amortization of cost of patent as per AS 26

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	300	.25	150
2	300	.25	150
3	300	.25	150
4	150	.10	60
5	150	.10	60
6	75	<u>.05</u>	<u>30</u>
		1.00	<u>600</u>

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150). The unamortized amount of the patent after third year will be ₹ 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

### (c) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of:

- ◆ The combined result of all segments in profit; or
- ◆ The combined result of all segments in loss,

whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

On the basis of revenue criteria, segments A, B, C and D - all are reportable segments.

On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).

On the basis of asset criteria, all segments except D are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with Accounting Standard (AS) 17.

(d) Tax as per accounting profit  $15,00,000 \times 20\% = ₹ 3,00,000$

Tax as per Income-tax Profit  $2,50,000 \times 20\% = ₹ 50,000$

Tax as per MAT  $7,50,000 \times 7.50\% = ₹ 56,250$

Tax expense = Current Tax + Deferred Tax

$₹ 3,00,000 = ₹ 50,000 + \text{Deferred tax}$

Therefore, Deferred Tax liability as on 31-03-2020

$= ₹ 3,00,000 - ₹ 50,000 = ₹ 2,50,000$

Amount of tax to be debited in Profit and Loss account for the year 31-03-2020

Current Tax + Deferred Tax liability + Excess of MAT over current tax

$= ₹ 50,000 + ₹ 2,50,000 + ₹ 6,250 (56,250 - 50,000) = ₹ 3,06,250$

## Question 2

- (a) H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1<sup>st</sup> October, 2019. The Balance Sheets of the two companies as on 31<sup>st</sup> March, 2020 were as under:

Particulars	H Ltd. (₹)	S Ltd. (₹)
<i>Equities and Liabilities:</i>		
Equity Share Capital: Shares of ₹ 10 each	20,00,000	8,00,000
General Reserve (1 <sup>st</sup> April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1 <sup>st</sup> April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-

Bills Payable	-	52,000
Trade Payables	<u>1,66,400</u>	<u>80,000</u>
Total	<u>36,55,200</u>	<u>16,60,000</u>
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	<u>56,800</u>	<u>32,000</u>
Total	<u>36,55,200</u>	<u>16,60,000</u>

Additional Information:

- (1) The Profit & Loss Account of S Ltd. showed credit balance of ₹ 1,20,000 on 1<sup>st</sup> April, 2019. S Ltd. paid a dividend of 10% out of the same on 1<sup>st</sup> November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.
- (2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1<sup>st</sup> April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> March, 2020 as per Schedule III of the Companies Act, 2013.

- (b) PGL Finance Ltd. is a non-banking financial company. The following information is provided by the company regarding its outstanding amounts: ₹ 600 Lakhs, of which instalments are overdue on 300 accounts for last two months (amount overdue ₹ 150 Lakhs), on 48 accounts for three months (amount overdue ₹ 64 Lakhs), on 20 accounts for more than 30 months (amount overdue ₹ 120 Lakhs) and in 4 accounts for more than three years (amount overdue ₹ 60 Lakhs - already identified as sub-standard asset) and one account of ₹ 40 Lakhs which has been identified as non-recoverable by the management. Out of 20 accounts overdue for more than 30 months, 16 accounts are already identified as sub-standard (amount ₹ 28 Lakhs) for more than fourteen months and others 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-Systematically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. **(15+5 = 20 Marks)**

**Answer**

(a) **Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd.**  
**as at 31st March, 2020**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,98,400
(b) Short term borrowings		3,00,000
Total		42,02,000
II. Assets		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
Total		42,02,000

**Notes to Accounts**

		₹	₹
1.	Share Capital		
	2,00,000 equity shares of ₹ 10 each		20,00,000
2.	Reserves and Surplus		
	Reserves	9,60,000	
	Profit & loss		
	H Ltd.	2,28,800	
	S Ltd. (As per W.N. 3)	<u>1,18,400</u>	<u>3,47,200</u>
			13,07,200

3.	Trade Payables			
	H Ltd.		1,66,400	
	S Ltd. (80,000+52,000)		<u>1,32,000</u>	2,98,400
4.	Property, Plant and Equipment			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	<u>7,60,000</u>	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	<u>4,94,000</u>	<u>14,54,000</u>	29,34,000
5.	Inventories			
	H Ltd.		4,56,000	
	S Ltd.		<u>1,68,000</u>	6,24,000
6.	Trade Receivables			
	H Ltd.	1,76,000		
	S Ltd.	<u>1,60,000</u>	3,36,000	
	Bills receivable: H Ltd.		<u>59,200</u>	3,95,200
7.	Cash & Cash equivalents			
	Cash			
	H Ltd.		56,800	
	S Ltd.		<u>32,000</u>	88,800

**Working Notes:****1. Share holding pattern**

Total Shares of S Ltd 80,000 shares

Shares held by H Ltd 64,000 shares i.e. 80 %;

Minority Shareholding 16,000 shares i.e. 20 %

**2. Capital profits of S Ltd.**

	₹	₹
Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1 <sup>st</sup> October, 2019 is same as of 31 <sup>st</sup> March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	<u>(80,000)</u>	40,000
Profit for year:		

Total ₹ 3,28,000		
Less: ₹ 40,000 (opening balance)		
₹ 2,88,000		
Proportionate up to 1st October, 2019 on time basis (₹ 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		<u>(50,000)</u>
		5,54,000
Less: Preliminary expenses written off		<u>(20,000)</u>
Total Capital Profit		<u>5,34,000</u>
Holding company's share (5,34,000 X 80%)		4,27,200
Minority Interest (5,34,000 X 20%)		1,06,800

**Note:** Preliminary expenses as on 1<sup>st</sup> April, 2019 amounting ₹ 20,000 have been written off.

### 3. Revenue profits of S Ltd.

Profit after 1st October, 2019 (3,28,000 - 40,000)/2		1,44,000
Less 10% depreciation on ₹5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2 <sup>nd</sup> half year on 6,00,000	<u>30,000</u>	
		4,000
		<u>1,48,000</u>
Holding company's share (1,48,000 X 80%)		1,18,400
Minority Interest (1,48,000 X 20%)		29,600

### 4. Minority interest

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	<u>29,600</u>
	<u>2,96,400</u>

### 5. Cost of Control

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 X 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	<u>4,27,200</u>	<u>(10,67,200)</u>
Cost of Control or Goodwill		<u>1,60,000</u>



**6. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1<sup>st</sup> October, 2019**

	₹
Value of plant and machinery as on 1 <sup>st</sup> April, 2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1 <sup>st</sup> October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1 <sup>st</sup> October, 2019	(5,20,000)
Revaluation Loss	50,000

**7. Value of plant & Machinery of S Ltd. On 31<sup>st</sup> March, 2020**

Value of machinery on 1 <sup>st</sup> October, 2019	5,20,000
Less: depreciation for next six month	<u>(26,000)</u>
	<u>4,94,000</u>

**(b) 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)
<u>Standard Assets</u>	
Accounts (Balancing figure) 166.00	
300 accounts overdue for a period for 2 months 150.00	
48 accounts overdue for a period by 3 months <u>64.00</u>	380.00
<u>Sub-Standard Assets</u>	
4 accounts identified as sub-standard asset for a period less than 14 months	92.00
<u>Doubtful Debts</u>	
16 accounts identified as sub-standard for a period more than 14 months	28.00
4 accounts identified as sub-standard for a period more than 3 years	60.00
<u>Loss Assets</u>	
One account identified by management as loss asset	<u>40.00</u>
Total overdue	<u>600.00</u>

**Question 3**

- (a) High Ltd. and Low Ltd. were amalgamated on and from, 1<sup>st</sup> April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31<sup>st</sup> March, 2020 are as under:

(₹ in Lakhs)

Liabilities	High Ltd.	Low Ltd.	Assets	High Ltd.	Low Ltd.
<i>Share Capital:</i>			<i>Property, Plant and Equipment:</i>		
Equity Shares of ₹ 100 each	1000	850	Land & Building	670	385
14% Pref Shares of ₹ 100 each	320	175	Plant & Machinery	475	355
<i>Reserves &amp; Surplus:</i>			Investments	95	80
Revaluation Reserve	225	110	<i>Current Assets:</i>		
General Reserve	360	240	Stock	415	389
Investment Allowance Reserve	80	40	Sundry Debtors	322	213
P & L Account	85	82	Bills Receivables	35	-
<i>Non-Current Liabilities:</i>			Cash & Bank	303	166
<i>Secured Loans:</i>					
13% Debentures (₹ 100 each)	100	56			
Unsecured Loans (Public Deposits)	50	-			
<i>Current Liabilities &amp; Provisions:</i>					
Sundry Creditors	65	35			
Bills Payable	30	-			
<b>TOTAL</b>	<b>2315</b>	<b>1588</b>	<b>TOTAL</b>	<b>2315</b>	<b>1588</b>

Other Information :

- (1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹100 each so as to maintain the same amount of interest.
- (2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹125 per share (Face Value ₹100)
- (3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹35 each having a face value of ₹10 per share.

(4) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance sheet of Little Ltd. as on 1<sup>st</sup> April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.

(b) In a winding up of a company creditor remain unpaid. The following persons had transferred their holdings before winding up.

Name	Date of Transfer	No of shares transferred	Amt. due to creditors on the transfer (₹)
D	1 <sup>st</sup> January, 2019	1000	8,500
E	15 <sup>th</sup> February, 2019	400	13,500
H	15 <sup>th</sup> March, 2019	700	19,000
J	31 <sup>st</sup> March, 2019	900	22,000
K	5 <sup>th</sup> April, 2019	1000	31,000

The shares were of ₹100 each, ₹80 being called up and paid up on the date of transfers.

(1) A member G, who holds 200 shares died on 28<sup>th</sup> Feb., 2019 when the amount due to creditors was ₹16000. His shares were transmitted to his Son X.

(2) R was the transferee of shares held by J. R paid ₹20 per share as calls in advance immediately on becoming a member.

(3) The liquidation of the Company commenced on 1<sup>st</sup> February, 2020. Then the liquidator made a call on the present and past contributories to pay the amount.

You are required to quantify the maximum liability of the transferors of shares mentioned in the above table. **(15 + 5 = 20 Marks)**

### Answer

(a) Balance Sheet of Little Ltd. as at 1<sup>st</sup> April, 2020

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,150.0
(b) Reserves and Surplus	2	2,437.8
(2) Non-Current Liabilities		
Long-term borrowings	3	135.2
Other Borrowings- Unsecured Loans		50
(3) Current Liabilities		
Trade payables	4	130.0

Total		3,903
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	5	1,885
(b) Non-current investment (95 + 80)		175
(2) Current assets		
(a) Inventory (415+389)		804
(b) Trade receivables	6	570
(c) Cash and bank balances (303 + 166)		469
Total		3,903

**Notes to Accounts**

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.1)		
	65,50,000 <sup>1</sup> Equity shares of ₹ 10 each	655	
	4,95,000 <sup>2</sup> Preference shares of ₹ 100 each	495	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		1,150
2.	Reserves and surplus		
	Securities Premium Account (W.N.3)		
	(1080+ 681.25)	1,761.25	
	Capital Reserve (W.N. 2)(283.33 + 393.22)	676.55	
	Investment Allowance Reserve (80 + 40)	120	
	Amalgamation Adjustment Reserve (80 + 40)	(120)	2,437.8
3.	Long-term borrowings		
	15% Debentures		135.2
4.	Trade payables		
	Sundry Creditors: High Ltd.	65	

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<sup>1</sup> 40,00,000 + 25,50,000

<sup>2</sup> 3,20,000 + 1,75,000

	Low Ltd.		35	
	Bills Payable: High Ltd.		30	130
5.	Property, Plant and Equipment			
	Land and Building : High Ltd	670		
	Low Ltd	<u>385</u>	1055	
	Plant and Machinery: High Ltd.	475		
	Low Ltd.	<u>355</u>	830	1,885
6.	Trade receivables			
	Sundry Debtors: High Ltd.		322	
	Low Ltd.		213	
	Bills Receivables: High Ltd.		35	570

**Working Notes:**

		(₹ in lakhs)	
		High Ltd.	Low Ltd.
(1)	Computation of Purchase consideration		
(a)	Preference shareholders:		
	$\left( \frac{3,20,00,000}{100} \text{ i.e. } 3,20,000 \text{ shares} \right)$	400	
	× ₹ 125 each		
	$\left( \frac{1,75,00,000}{100} \text{ i.e. } 1,75,000 \text{ shares} \right)$		218.75
	× ₹ 125 each		
(b)	Equity shareholders:		
	$\left( \frac{10,00,00,000 \times 4}{100} \text{ i.e. } 40,00,000 \text{ shares} \right)$	1,400	
	× ₹ 35 each		
	$\left( \frac{8,50,00,000 \times 3}{100} \text{ i.e. } 25,50,000 \text{ shares} \right)$		892.50
	× ₹ 35 each		
	Amount of Purchase Consideration	<u>1,800</u>	<u>1,111.25</u>
(2)	Computation of Capital Reserve		
	Assets taken over:		
	Land and Building	670	385
	Plant and Machinery	475	355
	Investments	95	80
	Inventory	415	389
	Trade receivables	322	213
	Bills Receivables	35	

	Cash and bank	<u>303</u>	<u>166</u>
		2,315	1,588
	Less: Liabilities taken over:		
	Debentures	86.67	48.53
	Unsecured Loan	50	
	Creditors	65	<u>35</u>
	Bills Payable	<u>30</u>	
		<u>231.67</u>	<u>83.53</u>
	Net assets taken over	2083.33	1,504.47
	Purchase consideration	<u>1,800</u>	<u>1,111.25</u>
	Capital reserve	<u>283.33</u>	<u>393.22</u>
(3)	Computation of securities premium		
	On preference share capital		
	High Ltd.- 3,20,000 x 25	80	
	Low Ltd.- 1,75,000 x 25		43.75
	On equity share capital		
	High Ltd.- 40,00,000 x 25	1000	
	Low Ltd.- 25,50,000 x 25		637.5
	Total	<u>1080</u>	<u>681.25</u>
(4)	Issue of Debentures (₹ In Lakhs)		
	High Ltd.- 15% fresh issue of debenture for 13% old debentures =		
	100 X 13% /15% = 86.67(rounded off)		
	Low Ltd.- 15% fresh issue of debenture for 13% old debentures =		
	56 X 13% /15% = 48.53 (rounded off)		
	Total number of debentures issued = 86.67 + 48.53 = 135.20 Lakhs		

**(b) Statement of Liability as Contributories of Former Members**

Date	Creditors outstanding	Amount paid to Creditors (Increase in Creditors)	No. of shares	E 400 shares	G/X 200 shares	H 700 shares	K 1,000 shares	Amount to be paid to Creditors
2019	₹	₹	Ratio	₹	₹	₹	₹	₹
Feb 15	13,500	13,500	4:2:7:10	2,348	1,174	4,108	5,870	13,500
Feb 28	16,000	2,500	2:7:10	—	263	921	1,316	2,500
March 15	19,000	3,000	2:7:10	—	316	1,105	1,579	3,000
April 5	31,000	12,000	2:10	—	2,000	—	10,000	12,000

(a) Maximum amount payable to creditors	2,348	3,753	6,134	18,765	31,000
(b) Maximum liability at ₹ 20 per share held	8,000	4,000	14,000	20,000	
Lower of (a) and (b)	2,348	3,753	6,134	18,765	

**Working Note:**

- (1) The transferors are D, E, H, J and K. When the transferees pay the amount due as “present” member contributories, there will not be any liability on the transferors. It is only when the transferees do not pay as “present” member contributories then the liability would arise in the case of “past” members as contributories.
- (2) D will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer.
- (3) J also will not be liable as the transferee R has paid the balance ₹ 20 per share as call in advance.
- (4) E, G/X, H and K will be liable, as former members, to the maximum extent as indicated, provided the transferees do not pay the calls.
- (5) X to whom shares were transmitted on demise of his father G would be liable as an existing member contributory. He steps into the shoes of his deceased father under section 430. His maximum liability would be at ₹ 20 per share on 200 shares received on transmission i.e. for ₹ 4,000.

**Question 4**

- (a) Mohan and Sohan were carrying business in partnership, sharing profit and losses equally. The Balance Sheet of the firm as on 31<sup>st</sup> March, 2019 stood as under:

Liabilities	₹	Assets	₹
Partners' Capital		Leasehold Premises	40,800
Accounts:		Plant & Machinery	1,80,000
- Mohan 1,68,000		Inventories	72,000
-Sohan <u>1,56,000</u>	3,24,000	Trade Receivables	84,000
Bank Overdraft	42,000	Joint Life Policy	10,800
Trade Payables	72,000	Profit & Loss Account	31,200
		Partners' Current Accounts:	
		-Mohan 12,000	
		-Sohan <u>7,200</u>	19,200
	<u>4,38,000</u>		<u>4,38,000</u>

The business was carried on till 30<sup>th</sup> September, 2019. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30<sup>th</sup> September, 2019 equally. The profit was calculated after charging depreciation @5% per annum on Leasehold premises and 10% per annum on Plant & Machinery.

In the half year, the amounts of Bank Overdraft and Trade Payables stood reduced by ₹ 18,000 and ₹ 12,000 respectively. On 30<sup>th</sup> September, 2019, the inventories were valued at ₹90,000 and Trade Receivables at ₹72,000. The Joint Life Policy had been surrendered for ₹10,800 before 30<sup>th</sup> September, 2019 and all other items remained the same as at 31<sup>st</sup> March, 2019.

On 30<sup>th</sup> September, 2019, the firm sold off its business to PKR Limited. The value of Goodwill was fixed at ₹1,20,000 and the rest of the assets and liabilities were valued on the basis of their book values as at 30<sup>th</sup> September, 2019. PKR Ltd. paid the purchase consideration in equity shares of ₹10 each.

You are requested to prepare the following:

- (1) Balance Sheet of the Firm as at 30<sup>th</sup> September, 2019;
  - (2) Realization Account;
  - (3) Partners' Capital Account showing the final settlement between them.
- (b) Vikas Finance Ltd. is a Non Banking Finance Company. The extracts of its Balance Sheet are as under :

Liabilities	(₹ in '000)	Assets	(₹ in '000)
Paid up Equity Capital	250	Leased out Assets	2,000
Free Reserves	1,250	Investments:	
Loans	1,000	- In shares of subsidiaries and Group Companies	275
Deposits	1,000	- In debentures of subsidiaries and Group Companies	225
		Cash & Bank Balances	500
		Deferred Expenditure	500
<b>TOTAL</b>	<b>3,500</b>	<b>TOTAL</b>	<b>3,500</b>

You are requested to compute the "Net Owned Funds" of Vikas Finance Ltd. as per Non Banking Finance Company - Systematically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016. **(15 + 5 = 20 Marks)**



**Answer****(a) (i) Balance Sheet of the Firm as at 30.9.2019**

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹	₹
Capital Accounts:			Machinery	1,80,000	
Mohan balance as on 30.9.2019	1,40,400		Less: Depreciation		
Add: Profit for 6 months	<u>15,180</u>		@10% p.a. for 6 months	<u>(9,000)</u>	1,71,000
	1,55,580				
Less: Drawings for 6 months	<u>(7,590)</u>	1,47,990	Leasehold premises	40,800	
			Less: Written-off @ 5% for 6 months	<u>(1,020)</u>	39,780
Sohan balance as on 30.9.2019	1,33,200		Inventory		90,000
Add: Profit for 6 months	<u>15,180</u>		Trade receivables		72,000
	1,48,380				
Less: Drawings for 6 months	<u>(7,590)</u>	1,40,790			
Trade payables (72,000 – 12,000)		60,000			
Bank overdraft (42,000 – 18,000)		<u>24,000</u>			
		3,72,780			<u>3,72,780</u>

**(ii) Realization Account**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Machinery A/c	1,71,000	By Trade payables A/c	60,000
To Leasehold Premises A/c	39,780	By Bank Overdraft A/c	24,000
To Inventory A/c	90,000	By PKR Ltd. A/c	4,08,780
To Trade receivables A/c	72,000	(W.N.1)	
To Mohan Capital A/c	60,000		
To Sohan Capital A/c	60,000		
	<u>4,92,780</u>		<u>4,92,780</u>

## (iii) Partners' Capital Accounts

Date	Particulars	Mohan	Sohan	Date	Particulars	Mohan	Sohan
		₹	₹			₹	₹
1.4.19	To Profit & Loss A/c	15,600	15,600	1.4.19	By Balance b/d	1,68,000	1,56,000
	To Current A/c	12,000	7,200				
30.9.19	Balance c/d	<u>1,40,400</u>	<u>1,33,200</u>				
		1,68,000	1,56,000			1,68,000	1,56,000
30.9.19	To Drawings A/c	7,590	7,590	30.9.19	By Balance b/d	1,40,400	1,33,200
	To Shares in PKR Ltd A/c	2,07,990	2,00,790	30.9.19	By Profit & Loss Appropriation A/c	15,180	15,180
					By Realization A/c	<u>60,000</u>	<u>60,000</u>
		<u>2,15,580</u>	<u>2,08,380</u>			<u>2,15,580</u>	<u>2,08,380</u>

## Working Notes:

## (1) Ascertainment of purchase consideration

	₹	₹
Assets:		
Inventory		90,000
Trade receivables		72,000
Machinery less depreciation		1,71,000
Leasehold premises less written off		<u>39,780</u>
		3,72,780
Less: Liabilities:		
Trade payables	60,000	
Bank overdraft	<u>24,000</u>	<u>(84,000)</u>
Closing Net Assets		2,88,780
Add: Goodwill		<u>1,20,000</u>
Purchase Consideration		<u>4,08,780</u>

**(2) Ascertainment of profit for the 6 month ended 30<sup>th</sup> September, 2019**

	₹	₹
Closing Net Assets		2,88,780
Less: Opening Combined Capital		
Mohan – (1,68,000- 15,600-12,000)	1,40,400	
Sohan – (1,56,000-15,600-7,200)	<u>1,33,200</u>	
Profit after adjustment of Drawings		<u>(2,73,600)</u>
Add: Combined drawings during the 6 month (equal to profit)		15,180
		<u>15,180</u>
Profit for 6 months		<u>30,360</u>

**(b) Statement showing computation of 'Net Owned Fund'**

		₹ in 000
Paid up Equity Capital		250
Free Reserves		<u>1,250</u>
		1,500
Less: Deferred expenditure		<u>(500)</u>
	A	<u>1,000</u>
Investments		
In shares of subsidiaries and group companies		275
In debentures of subsidiaries and group companies		<u>225</u>
	B	<u>500</u>
10% of A		100
Excess of Investment over 10% of A (500-100)	C	400
Net Owned Fund [(A) - (C)] (1,000-400)		600

**Question 5**

- (a) Sun Ltd. grants 100 stock options to each of its 1200 employees on 01.04.2016 for ₹ 30, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is ₹ 60 each. These options will vest at the end of the year 1 if the earning of Sun Ltd. is 16% or it will vest at the end of year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years is 10%. 6000 unvested options lapsed on 31.3.2017, 5000 unvested options lapsed on 31.03.2018 and finally 4000 unvested options lapsed on 31.03.2019.

The earnings of Sun Ltd. for the three financial years ended on 31st March, 2017, 2018 and 2019 are 15%, 10% and 6%, respectively.

1000 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.

You are requested to give the necessary journal entries for the above and prepare the statement showing compensation expenses to be recognized at the end of each year.

- (b) Vasu Commercial Bank has the following capital funds and assets.

Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted assets and risk weighted assets ratio.

Particulars	₹ in crores
Equity Share Capital	600.00
Statutory Reserve	250.00
Capital Reserve (of which ₹ 26 crores were due to revaluation of assets and the balance due to sale of capital assets)	87.00
Assets:	
Cash Balance with RBI	20.00
Balance with other banks	28.00
Other investments	38.00
Loans and advances :	
(i) Guaranteed by the Govt.	18.50
(ii) Others	6,625.00
Premises, Furniture and fixtures	108.00
Off-Balance Sheet Items	
(i) Guarantee and other obligations	600.00
(ii) Acceptances, endorsements and letter of credit	4,200.00

(10 + 10 = 20 Marks)

**Answer**

- (a)

Date	Particulars		₹	₹
31.3.2017	Employees compensation expense A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,200 employees at a discount of ₹ 30 each,	Dr.	17,10,000	17,10,000

	amortized on straight line basis over vesting years (Refer W.N.)			
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	17,10,000	17,10,000
31.3.2018	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP-Refer W.N.)	Dr.	4,70,000	4,70,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	4,70,000	4,70,000
31.3.2019	Employees compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP-Refer W.N.)	Dr.	9,70,000	9,70,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)		9,70,000	9,70,000
2019-20	Bank A/c (1,00,000 x ₹ 30) ESOS outstanding A/c [(31,50,000/1,05,000) x 1,00,000] To Equity share capital (1,00,000 x ₹ 10) To Securities premium A/c (1,00,000 x ₹ 50) (Being 1,00,000 options exercised at an exercise price of ₹ 30 each)	Dr. Dr.	30,00,000 30,00,000	10,00,000 50,00,000

31.3.2020	ESOS outstanding A/c To General Reserve A/c (Being ESOS outstanding A/c on lapse of 5,000 options at the end of exercise of option period transferred to General Reserve A/c)	Dr.	1,50,000	1,50,000
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**Working Note:****Statement showing compensation expense to be recognized at the end of:**

Particulars	Year 1 (31.3.2017)	Year 2 (31.3.2018)	Year 3 (31.3.2019)
Number of options expected to vest	1,14,000 options	1,09,000 options	1,05,000 options
Total compensation expense accrued (60-30)	<u>₹ 34,20,000</u>	<u>₹ 32,70,000</u>	<u>₹ 31,50,000</u>
Compensation expense of the year	34,20,000 x 1/2 = ₹ 17,10,000	32,70,000 x 2/3 = ₹ 21,80,000	₹ 31,50,000
Compensation expense recognized previously	<u>Nil</u>	<u>₹ 17,10,000</u>	<u>₹ 21,80,000</u>
Compensation expenses to be recognized for the year	<u>₹ 17,10,000</u>	<u>₹ 4,70,000</u>	<u>₹ 9,70,000</u>

**(b)***(₹ in Crores)*

(i) Capital Funds - Tier I :	₹	₹
Equity Share Capital		600
Statutory Reserve		250
Capital Reserve (arising out of sale of assets) (87 – 26)		<u>61</u>
Capital Fund Tier I		911.0
Capital Funds - Tier II :		
Capital Reserve (arising out of revaluation of assets)	26.0	
Less: Discount to the extent of 55%	<u>(14.3)</u>	
Capital fund Tier II		<u>11.7</u>
Total Capital Fund		<u>922.7</u>

**(ii) Calculation of Risk Adjusted Assets**

Funded Risk Assets	₹	weight in %	Amount ₹
Cash Balance with RBI	20	0	0
Balances with other Banks	28	20	5.6
Other Investments	38	100	38
Loans and Advances:			
(i) guaranteed by government	18.5	0	0
(ii) Others	6625	100	6625
Premises, furniture and fixtures	108	100	<u>108</u>
			<u>6776.60</u>
<i>Off-Balance Sheet Item</i>	<i>₹ in Crores</i>	<i>Credit Conversion Factor</i>	
Guarantees & Other Obligations	600	100	600
Acceptances, Endorsements and Letters of credit	4,200	100	<u>4,200</u>
			<u>11576.60</u>

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

$$= \frac{911 + 11.7}{6776.60 + 4,800}$$

Capital Adequacy Ratio =  $922.7 / 11576.6 = 7.97\%$

**Question 6**

Answer any **four** of the following:

- (a) Under what circumstances an LLP can be wound up by the tribunal?
- (b) Beekey Limited is being wound up by the tribunal. All the assets of the company have been charged in favour of the company's bankers to whom the company owes ₹ 2.50 crores. The company owes following amounts to others:

Dues to workers - ₹ 62,50,000

Taxes payable to Government - ₹ 15,00,000

Unsecured creditors - ₹30,00,000

You are required to compute with reference to the provisions of the Companies Act, 2013, the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only ₹2,00,00,000.

- (c) M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31<sup>st</sup> March, 2019, the total expenditure incurred on the process was ₹80 lakhs. The production process met the criteria for recognition as an intangible asset on 1<sup>st</sup> November, 2018. Expenditure incurred till this date was ₹42 lakhs.

Further expenditure incurred on the process for the financial year ending 31<sup>st</sup> March, 2020 was ₹90 lakhs. As on 31.03.2020, the recoverable amount of know how embodied in the process is estimated to be ₹82 lakhs. This includes estimates of future cash outflows and inflows.

You are required to work out :

- (1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31<sup>st</sup> March, 2019 ?
- (2) What is the carrying amount of the intangible asset as on 31<sup>st</sup> March, 2019?
- (3) What amount of expenditure to be charged to Profit and Loss Account for the year ended 31<sup>st</sup> March, 2020 ?

What is the carrying amount of the intangible asset as on 31<sup>st</sup> March, 2020?

- (d) A, B, C and D hold Equity Share Capital in the proportion of 40:30:20:10 and P, Q, R and S hold Preference Share Capital in the proportion of 30:40:20:10 in Alpha Ltd. If the paid up Equity Share Capital of Alpha Ltd. is ₹75 lacs and the Preference Share Capital is ₹25 lacs, find their voting rights in the case of resolution of winding up of the company.
- (e) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:
- (i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.
  - (ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

**(4 Parts x 5 Marks= 20 Marks)**



**Answer**

- (a) An LLP may be wound up by the Tribunal in the following circumstances:
- If the LLP decides that it should be wound up by the Tribunal;
  - If for a period of more than six months, the number of partners of the LLP is reduced below two;
  - If the LLP is unable to pay its debts;
  - If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
  - If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
  - If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.
- (b) Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari passu change in favour of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized} \times \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{2,00,00,000 \times 62,50,000}{62,50,000 + 2,50,00,000}$$

$$= 2,00,00,000 \times 1/5$$

$$\text{Workmen's share to Secured Assets} = ₹ 40,00,000$$

Amount available to secured creditor is ₹ 200 Lakhs – 40 Lakhs = 160 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

- (c) As per AS 26 'Intangible Assets'
- (i) **Expenditure to be charged to Profit and Loss account for the year ending 31.03.2019**
- ₹ 42 lakhs is recognized as an expense because the recognition criteria were not met until 1<sup>st</sup> November, 2018. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

**(ii) Carrying value of intangible asset as on 31.03.2019**

At the end of financial year, on 31<sup>st</sup> March 2019, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 38 (80-42) lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1<sup>st</sup> November 2018)

**(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020**

	(₹ in lacs)
Carrying Amount as on 31.03.2019	38
Expenditure during 2019 – 2020	<u>90</u>
Book Value	128
Recoverable Amount	<u>(82)</u>
Impairment loss to be charged to Profit and loss account	<u>46</u>

₹ 46 lakhs to be charged to Profit and loss account for the year ending 31.03.2020.

**(iv) Carrying value of intangible asset as on 31.03.2020**

	(₹ in lacs)
Book Value	128
Less: Impairment loss	<u>(46)</u>
Carrying amount as on 31.03.2020	<u>82</u>

- (d)** A, B, C and D hold Equity capital is held by in the proportion of 40:30:20:10 and P, Q, R and S hold preference share capital in the proportion of 30:40:20:10. As the paid-up equity share capital of the company is ₹ 75 Lakhs and Preference share capital is ₹ 25 Lakh (3:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 3/4 and 1/4.

The respective voting right of various shareholders will be:

$$\begin{aligned}
 A &= \frac{3}{4} \times \frac{40}{100} = .3 \text{ (30\%)} \\
 B &= \frac{3}{4} \times \frac{30}{100} = .225 \text{ (22.5\%)} \\
 C &= \frac{3}{4} \times \frac{20}{100} = .15 \text{ (15\%)} \\
 D &= \frac{3}{4} \times \frac{10}{100} = .075 \text{ (7.5\%)} \\
 P &= \frac{1}{4} \times \frac{30}{100} = .075 \text{ (7.5\%)} \\
 Q &= \frac{1}{4} \times \frac{40}{100} = 0.1 \text{ (10\%)} \\
 R &= \frac{1}{4} \times \frac{20}{100} = .05 \text{ (5\%)} \\
 S &= \frac{1}{4} \times \frac{10}{100} = .025 \text{ (2.5\%)}
 \end{aligned}$$

- (e) (i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

- (ii) As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.

The expenditures of training the staff related to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required.