# PAPER – 5: ADVANCED ACCOUNTING

## PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2018 EXAMINATION

**A. Applicable for May, 2018 Examination**

**I. Applicability of the Companies Act, 2013 and other Legislative Amendments**

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2017 will be applicable for May, 2018 Examination.

**II. Maintenance of Statutory Liquidity Ratio (SLR)**

**Section 24 and Section 56 of the Banking Regulation Act, 1949 – Maintenance of SLR and holdings of SLR in HTM category**

It has been decided to reduce the SLR requirement of banks from 20.0 per cent of their Net Demand and Time Liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017 as announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017. The related notification is DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 4, 2017.

Currently, the banks are permitted to exceed the limit of 25 per cent of the total investments under HTM category, provided the excess comprises of SLR securities and total SLR securities held under HTM category are not more than 20.5 per cent of NDTL. In order to align this ceiling on the SLR holdings under HTM category with the mandatory SLR, it has been decided to reduce the ceiling from 20.5 per cent to 19.5 per cent in a phased manner, i.e. 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, i.e., in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3 (ii) of the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

**III. Maintenance of Cash Reserve Ratio (CRR)**

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to ***4.00 per cent of their Net Demand and Time Liabilities (NDTL)*** with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001 /2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

**B. Not applicable for May, 2018 examination**

**Non-Applicability of Ind AS for May, 2018 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2018 Examination.

## PART – II : QUESTIONS AND ANSWERS

### QUESTIONS

**Employee Stock Option Plans**

1. PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 18 on the grant date and the exercise price is ₹ 55 per share. The other information is given as under:

   (i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.

   (ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

   *You are required to* ***calculate*** *ESOP cost to be amortized by PQ Ltd. in the years 2015-2016 and 2016-2017.*

**Buy Back of Securities**

2. Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016 :

| Liabilities | Amount (₹) |
|---|---|
| Equity shares of ₹ 10 each, fully paid up | 12,50,000 |
| Bonus shares of ₹ 10 each, fully paid up | 1,00,000 |
| Share option outstanding Account | 4,00,000 |
| Revenue Reserve | 15,00,000 |
| Securities Premium | 2,50,000 |
| Profit & Loss Account | 1,25,000 |
| Capital Reserve | 2,00,000 |
| Unpaid dividends | 1,00,000 |
| 12% Debentures (Secured) | 18,75,000 |
| Advance from related parties (Unsecured) | 10,00,000 |
| Current maturities of long term borrowings | 16,50,000 |
| Application money received for allotment due for refund | 2,00,000 |
| | **86,50,000** |
| Fixed Assets | 46,50,000 |
| Current Assets | 40,00,000 |
| | **86,50,000** |

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

*You are required to **prepare** the necessary journal entries towards buy back of shares and **prepare** the Balance Sheet after buy back of shares.*

**Equity Shares with Differential Rights**

3. L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

*You are required to **identify** the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹ 40 Lakh.*

**Underwriting of Shares and Debentures**

4. Paper Limited comes out with a public issue of share capital on 01-01-2017 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2017) and ₹ 3 on allotment (31-3-2017) including premium.

   This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

   One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

   6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2017 and were re-allotted for payment in cash of ₹ 4 per share.

   *You are required to **prepare** each underwriter's liability (in shares) in statement form assuming that benefit of firm underwriting is given to individual underwriter and to **prepare** necessary journal entries to record the above events and transactions (including cash).*

**Amalgamation of Companies**

5. P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

   The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

**Summarized balance sheets as at 31-03-2017**

| Liabilities | P Ltd. ₹ | Q Ltd. ₹ | Assets | P Ltd. ₹ | Q Ltd. ₹ |
|---|---|---|---|---|---|
| Equity & liabilities: | | | Assets: | | |
| Shareholders Fund | | | Non-current Assets: | | |
| a. Share Capital | 6,00,000 | 8,40,000 | Fixed Assets (excluding Goodwill) | 7,20,000 | 10,80,000 |
| b. Reserves | 10,20,000 | 6,00,000 | Current Assets | | |
| Current Liabilities | | | a. Inventories | 3,60,000 | 6,60,000 |
| Bank Overdraft | - | 5,40,000 | b. Trade receivables | 4,80,000 | 7,80,000 |
| Trade payables | 2,40,000 | 5,40,000 | c. Cash at Bank | 3,00,000 | - |
| | 18,60,000 | 25,20,000 | | 18,60,000 | 25,20,000 |

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) ***Calculate*** *the number of shares issued to P Ltd. and Q Ltd; and*

*(ii)* ***Prepare*** *required journal entries in the books of PQ Ltd.; and*

*(iii)* ***Prepare*** *the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.*

**Internal Reconstruction of a Company**

6. M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

| ***Liabilities*** | ***Amount (₹)*** | ***Assets*** | ***Amount(₹)*** |
|---|---|---|---|
| Share Capital | | Land & Building | 42,70,000 |
| 50,000 shares of ₹ 50 | | Machinery | 8,50,000 |
| each fully paid up | 25,00,000 | Computers | 5,20,000 |
| 1,00,000 shares of ₹ 50 | | Inventories | 3,20,000 |
| each ₹ 40 paid up | 40,00,000 | Trade receivables | 10,90,000 |
| Capital Reserve | 5,00,000 | Cash at Bank | 2,68,000 |
| 8% Debentures of ₹ 100 each | 4,00,000 | Profit & Loss Account | 29,82,000 |
| 12% Debentures of ₹ 100 each | 6,00,000 | | |
| Trade creditors | 12,40,000 | | |
| Outstanding Expenses | 10,60,000 | | |
| | 1,03,00,000 | | 1,03,00,000 |

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

| | Mr. A | Mr. B |
|---|---|---|
| 8% Debentures | 3,00,000 | 1,00,000 |
| 12% Debentures | 4,00,000 | 2,00,000 |
| Total | 7,00,000 | 3,00,000 |

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

(1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.

(2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.

(3) Trade creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.

(4) Mr. A agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.

(5) Mr. B agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.

(6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.

(7) Outstanding Expenses are fully paid in cash.

(8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

*You are required to* ***prepare*** *necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.*

**Liquidation of a Company**

7. The position of Careless Ltd. on its liquidation is as under:

5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

*You are required to* ***prepare*** *Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.*

**Financial Statements of Insurance Companies**

8 From the following information given by Long Live Insurance Co. Ltd., *you are required to* ***prepare*** *necessary Journal Entries (with narration and required working notes) relating to Unexpired Risk Reserve.*

(i) On 31.03.16, it had reserve for unexpired risks amounting to ₹ 80 crores. Its composition was as under:

(a) ₹ 30 crores in respect of Marine insurance business

(b) ₹ 40 crores in respect of Fire insurance business and

(c) ₹ 10 crores in respect of Miscellaneous insurance business

(ii) Long 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 Miscellaneous income policies.

(iii) During 2016-17, the following business was conducted:

| | | | **₹ In crore** |
|---|---|---|---|
| | **Marine** | **Fire** | **Miscellaneous** |
| Premium Collected from: | | | |
| (a) Insured in respect of Policies issued | 36 | 86 | 24 |
| (b) Other Insurance Companies in respect of risks undertaken | 14 | 10 | 8 |
| Premium paid/payable to other insurance Companies on Business ceded. | 20 | 10 | 15 |

**Financial Statements of Banking Companies**

9. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

| | ₹ |
|---|---|
| Interest and discount received | 59,29,180 |
| Interest paid on deposits | 32,59,920 |
| Issued and subscribed capital | 16,00,000 |
| Salaries and allowances | 3,20,000 |

| | |
|---|---|
| Directors fee and allowances | 48,000 |
| Rent and taxes paid | 1,44,000 |
| Postage and telegrams | 96,460 |
| Statutory reserve fund | 12,80,000 |
| Commission, exchange and brokerage | 3,04,000 |
| Rent received | 1,04,000 |
| Profit on sale of investments | 3,20,000 |
| Depreciation on bank's properties | 48,000 |
| Statutory expenses | 44,000 |
| Preliminary expenses | 40,000 |
| Auditor's fee | 28,000 |

The following further information is given:

(i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2016 was ₹ 19,000 and on 31.3.2017 was ₹ 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide ₹ 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

***Prepare*** *the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.*

**NBFCs**

10. While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

| | ₹ in lakhs |
|---|---|
| Standard assets | 53,600 |
| Sub-standard assets | 2,680 |
| Secured portions of doubtful debts: | |
| – Up to one year | 640 |
| – one year to three years | 180 |
| – more than three years | 60 |
| Unsecured portions of doubtful debts | 194 |
| Loss assets | 96 |

***Calculate** the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.*

**Mutual Funds**

11. Amar has invested in two mutual funds. From the details given below, you are required to calculate effective yield on per annum basis in respect of each of the schemes to Amar up to 31.03.2017.

| Mutual Fund | X | Y |
|---|---|---|
| Date of Investment | 1-12-2016 | 1-1-2017 |
| Amount of investment (₹) | 2,00,000 | 4,00,000 |
| NAV at the date of investment (₹) | 10.50 | 10.00 |
| Dividend received upto 31-3-2017 (₹) | 3,800 | 6,000 |
| NAV as on 31-3-2017 (₹) | 10.40 | 10.10 |

**Valuation of Goodwill**

12. The following is the summarized Balance Sheet of Alpha Ltd. as at 31st March, 2017:

| *Liabilities* | *(₹ in lakhs)* | *Assets* | *(₹ in lakhs)* |
|---|---|---|---|
| Share Capital: | | Fixed Assets: | |
| Equity shares of ₹ 10 each | 200.00 | Land and buildings | 100.00 |
| 9% Preference share fully paid up | 40.00 | Plant and machinery | 321.00 |
| Reserve and Surplus: | | Furniture and fixture | 22.00 |
| General reserve | 48.00 | Vehicles | 20.00 |
| Profit and Loss | 121.60 | Investments | 40.00 |
| Secured loans: | | Inventory | 27.00 |
| 10% Debentures | 20.00 | Trade Receivables | 19.60 |
| 12% Term loan | 72.00 | Cash and bank | 41.60 |
| Trade Payables | 64.00 | | |
| Provision for taxation | 25.60 | | |
| | 591.20 | | 591.20 |

Non-trade investments were 20% of the total investments.

Balances as on 1.4.2016 to the following accounts were as: Profit and Loss account ₹ 43.20 lakhs, General reserve ₹ 46 lakhs.

*Alpha Ltd. desires to value goodwill. For the purpose of valuation of goodwill, the company requires you to* ***calculate average capital employed****.*

**Consolidated Financial Statements**

13. Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

| | Hello Ltd. (*₹ in lacs)* | Sun Ltd. (*₹ in lacs)* |
|---|---|---|
| Incomes: | | |
| Sales and other income | 10,000 | 2,000 |
| Increase in Inventory | 2,000 | 400 |
| | 12,000 | 2,400 |
| Expenses: | | |
| Raw material consumed | 1,600 | 400 |
| Wages and Salaries | 1,600 | 300 |
| Production expenses | 400 | 200 |
| Administrative Expenses | 400 | 200 |
| Selling and Distribution Expenses | 400 | 100 |
| Interest | 200 | 100 |
| Depreciation | 200 | 100 |
| | 4,800 | 1,400 |
| Profit before tax | 7,200 | 1,000 |
| Provision for tax | 2,400 | 400 |
| Profit after tax | 4,800 | 600 |
| Dividend paid | 2,400 | 300 |
| Balance of Profit | 2,400 | 300 |

Other Information:

Hello Ltd. sold goods to Sun Ltd. of ₹ 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing ₹ 48 lacs. Administrative expenses of Sun Ltd. include ₹ 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include ₹ 20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of ₹ 2,000 lacs in Sun Ltd. prior to 2015-2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

*You are required to **prepare** a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.*

**Guidance Notes**

14. How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? **Explain.**

**Accounting Standards**

**AS 7 Construction Contracts**

15. (a) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are·given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

*You are required to **identify** the state of completion and **calculate** the revenue and profit to be recognized for the year as per AS 7.*

**AS 9 Revenue Recognition**

(b) A manufacturing company has the following stages of production and sale in manufacturing fine paper rolls:

| Date | Activity | Cost to Date (₹) | Net Realizable Value (₹) |
|---|---|---|---|
| 15.1.16 | Raw Material | 1,00,000 | 80,000 |
| 20.1.16 | Pulp (WIP 1) | 1,20,000 | 1,20,000 |
| 27.1.16 | Rough & thick paper (WIP 2) | 1,50,000 | 1,80,000 |
| 15.2.16 | Fine Paper Rolls | 1,80,000 | 3,50,000 |
| 20.2.16 | Ready for sale | 1,80,000 | 3,50,000 |
| 15.3.16 | Sale agreed and invoice raised | 2,00,000 | 3,50,000 |
| 02.4.16 | Delivered and paid for | 2,00,000 | 3,50,000 |

***Explain** the stage on which you think revenue will be generated and **calculate** how much would be net profit for year ending 31.3.16 on this product as per AS 9.*

**AS 18 Related Party Disclosures**

16. (a) Is remuneration paid to Board of Directors a related party transaction? **Explain.**

**AS 19 Leases**

(b) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

*You are required to **calculate** the amount of the annual lease payment and the unearned finance income.* Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

**AS 20 Earnings Per Share**

17. The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax: ₹ 75,00,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 10,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

| Particulars | Nos. |
|---|---|
| 8% Convertible Debentures of ₹ 100 each | 1,00,000 |
| Equity Shares to be issued on conversion | 1,10,000 |

The Rate of Income Tax: 30%.

*You are required to **calculate** Basic and Diluted Earnings Per Share (EPS).*

**AS 24 Discontinuing Operations**

18. A consumer goods producer has changed the product line as follows:

| | *Dish washing Bar (Per month)* | *Clothes washing Bar (Per month)* |
|---|---:|---:|
| January 2016 - September 2016 | 2,00,000 | 2,00,000 |
| October 2016 - December 2016 | 1,00,000 | 3,00,000 |
| January 2017 - March 2017 | Nil | 4,00,000 |

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.

*You required to **advise** the company whether it should be treated as discontinuing operation or not as per AS 24?*

**AS 26 Intangible Assets**

19. K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

    *You are required to **advise** the Company as per the applicable Accounting Standard.*

**AS 29 Provisions, Contingent Liabilities and Contingent Assets**

20. The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier.

    *You are required to **examine** in line with the provisions of AS 29.*

## ANSWERS

**1. Calculation of ESOP cost to be amortized**

| | *2015-2016* | *2016-2017* |
|---|---|---|
| Fair value of options per share | ₹ 18 | ₹ 18 |
| No. of options expected to vest under the scheme | 93,000 (930 x 100) | 88,000 (880 x 100) |
| Fair value of options | ₹ 16,74,000 | ₹ 15,84,000 |
| Value of options recognized as expenses | (₹ 16,74,000 / 2) 8,37,000 | (₹ 15,84,000 – ₹ 8,37,000) 7,47,000 |

**2.** As per the information given in the question, buy-back of 25,000 shares @ ₹ 20 , as desired by the company, is within the provisions of the Companies Act, 2013.

**Journal Entries for buy-back of shares**

| | | | *Debit (₹)* | *Credit (₹)* |
|---|---|---|---|---|
| (a) | Equity shares buy-back account | Dr. | 5,00,000 | |
| | To Bank account | | | 5,00,000 |

| | | | |
|---|---|---|---|
| | (Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share) | | |
| (b) | Equity share capital account Dr. | 2,50,000 | |
| | Securities premium account Dr. | 2,50,000 | |
| | To Equity shares buy-back account | | 5,00,000 |
| | (Being cancellation of shares bought back) | | |
| (c) | Revenue reserve account Dr. | 2,50,000 | |
| | To Capital redemption reserve account | | 2,50,000 |
| | (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves) | | |

**Balance Sheet of Complicated Ltd.**
**as on 1st April, 2016**

| *Particulars* | *Note No* | *Amount* ₹ |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| 1 **Shareholders' funds** | | |
| (a) Share capital | 1 | 11,00,000 |
| (b) Reserves and Surplus | 2 | 22,25,000 |
| 2 **Non-current liabilities** | | |
| (a) Long-term borrowings | 3 | 28,75,000 |
| 3 **Current liabilities** | | |
| (a) Other current liabilities | 4 | 19,50,000 |
| Total | | 81,50,000 |
| **ASSETS** | | |
| 1 **Non-current assets** | | |
| (a) Fixed assets | | 46,50,000 |
| 2 Current assets (40,00,000-5,00,000) | | 35,00,000 |
| Total | | 81,50,000 |

**Notes to Accounts**

| | | ₹ | ₹ |
|---|---|---|---|
| 1. | Share Capital | | |
| | Equity share capital | | |
| | 1,10,000 Equity shares of ₹10 each | | 11,00,000 |

| | | | | |
|---|---|---|---|---|
| 2. | Reserves and Surplus | | | |
| | Profit and Loss A/c | | 1,25,000 | |
| | Revenue reserves | 15,00,000 | | |
| | *Less*: Transfer to CRR | (2,50,000) | 12,50,000 | |
| | Securities premium | 2,50,000 | | |
| | *Less*: Utilization for share buy-back | (2,50,000) | - | |
| | Share Option Outstanding Account | | 4,00,000 | |
| | Capital Reserve | | 2,00,000 | |
| | Capital Redemption Reserve | | 2,50,000 | 22,25,000 |
| 3. | Long-term borrowings | | | |
| | Secured | | | |
| | 12% Debentures | | 18,75,000 | |
| | Unsecured loans | | 10,00,000 | 28,75,000 |
| 4. | Other Current Liabilities | | | |
| | Current maturities of long term borrowings | | 16,50,000 | |
| | Unpaid dividend | | 1,00,000 | |
| | Application money received for allotment due for refund | | 2,00,000 | 19,50,000 |

**3.** L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L = 2/3X30/100 = 3/15

M = 2/3X30/100 = 3/15

N = 2/3X20/100 = 2/15

O = 2/3X20/100 = 2/15

X = 1/3X40/100 = 2/15

Y = 1/3X30/100 = 1/10

Z = 1/3X20/100 = 1/15

K = 1/3X10/100 = 1/30

**4. Statement showing liability of underwriters**

| | *Particulars* | *Basis* | *White* | *Black* |
|---|---|---|---|---|
| A. | Gross Liability [No. of Shares) | 1:1 | 15,00,000 | 15,00,000 |

| | | | | |
|---|---|---|---|---|
| B. | *Less:* Marked Applications {Net of firm underwriting} | | (15,00,000) | (10,20,000) |
| C. | Balance [A-B] | | - | 4,80,000 |
| D | *Less:* Unmarked Applications | 1:1 | (1,20,000) | (1,20,000) |
| E | Balance [C-D] | | (1,20,000) | 3,60,000 |
| F | *Less:* Firm Underwriting | | (60,000) | (60,000) |
| G | Balance | | (1,80,000) | 3,00,000 |
| H | Credit for White 's Oversubscription | | 1,80,000 | (1,80,000) |
| I | Net Liability | | - | 1,20,000 |
| J | *Add:* Firm Underwriting | | 60,000 | 60,000 |
| K | Total Liability [No. Shares] | | 60,000 | 1,80,000 |

**Journal Entries**

| | | | | |
|---|---|---|---|---|
| 2017 | | | | |
| Jan 31 | Bank A/c | Dr. | 72,00,000 | |
| | To Equity Share Application A/c | | | 72,00,000 |
| | (Being application money received @ ₹ 2.50 per share on 28,80,000 shares) | | | |
| March 31 | Equity Share Application A/c | Dr. | 72,00,000 | |
| | To Equity Share Capital A/c | | | 72,00,000 |
| | (Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution) | | | |
| March 31 | Equity Share Allotment A/c (28,80,000 x ₹ 3) | Dr. | 86,40,000 | |
| | To Equity Share Capital A/c (28,80,000x ₹ 2.5) | | | 72,00,000 |
| | To Securities Premium A/c (28,80,000 x ₹ 0.5) | | | 14,40,000 |
| | (Being allotment money due on 28,80,000 shares allotted to public) | | | |
| | Black (1,20,000 x ₹ 5.5) | Dr. | 6,60,000 | |
| | To Equity Share Capital A/c (1,20,000 x ₹ 5) | | | 6,00,000 |
| | To Securities Premium A/c (1,20,000 x ₹ 0.5) | | | 60,000 |

| | | | | |
|---|---|---|---|---|
| | (Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares) | | | |
| March 31 | Bank A/c | Dr. | 92,82,000 | |
| | To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3] | | | 86,22,000 |
| | To Black (1,20,000 x ₹ 5.5) | | | 6,60,000 |
| | (Being the receipt of money due on allotment except from the allottee for 6,000 shares) | | | |
| March 31 | Underwriting Commission A/c | Dr. | 12,60,000 | |
| | To Black A/c | | | 6,30,000 |
| | To White A/c | | | 6,30,000 |
| | (Being commission @ 4 % on issue price of ₹ 10.50 for ₹30 lakh shares payable to underwriters) | | | |
| March 31 | Black A/c | | 6,30,000 | |
| | White A/c | | 6,30,000 | |
| | To Bank A/c | | | 12,60,000 |
| | (Being commission paid to underwriters) | | | |
| June 30 | Equity Share Capital A/c (6,000 x 5) | Dr. | 30,000 | |
| | Securities Premium A/c (6,000 x 0.5) | Dr. | 3,000 | |
| | To Share Allotment A/c (6,000 x 3) | | | 18,000 |
| | To Forfeited Shares A/c (6,000 x 2.5) | | | 15,000 |
| | (Being 6,000 shares forfeited vide Board's Resolution) | | | |
| June 30 | Bank A/c (6,000 x ₹ 4) | Dr. | 24,000 | |
| | Forfeited Shares A/c | Dr. | 6,000 | |
| | To Equity Share Capital A/c (6,000 x ₹ 5) | | | 30,000 |
| | (Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par) | | | |
| | Forfeited Shares A/c (15,000 – 6,000) | Dr. | 9,000 | |
| | To Capital Reserve A/c | | | 9,000 |
| | (Being the transfer of profit on reissue) | | | |

**5. (i) Calculation of number of shares issued to P Ltd. and Q Ltd.:**

| | |
|---|---|
| Amount of Share Capital as per balance sheet | ₹ |
| P Ltd. | 6,00,000 |
| Q Ltd. | 8,40,000 |
| | 14,40,000 |

Share of P Ltd. = ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= ₹ 8,64,000 or 86,400 shares

Securities premium = ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000

Premium per share = ₹ 12,96,000 / ₹ 86,400 = ₹ 15

Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share

Share of Q Ltd. = ₹ 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= ₹ 5,76,000 or 57,600 shares

Securities premium = ₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000

Premium per share = ₹ 8,64,000 / ₹ 57,600 = ₹ 15

Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share

**(ii) Journal Entries in the books of PQ Ltd.**

| | | *Dr.* | *Cr.* |
|---|---|---|---|
| *Particulars* | | *Amount (₹)* | *Amount (₹)* |
| Business purchase account | Dr. | 36,00,000 | |
| To Liquidator of P Ltd. account | | | 21,60,000 |
| To Liquidator of Q Ltd. account | | | 14,40,000 |
| (Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over) | | | |
| Goodwill | Dr. | 5,40,000 | |
| Fixed assets account | Dr. | 7,20,000 | |
| Inventory account | Dr. | 3,60,000 | |
| Trade receivables account | Dr. | 4,80,000 | |
| Cash at bank | Dr. | 3,00,000 | |
| To Trade payables account | | | 2,40,000 |
| To Business purchase account | | | 21,60,000 |
| (Being assets and liabilities of P Ltd. taken over) | | | |
| Fixed assets account | Dr. | 10,80,000 | |
| Inventory account | Dr. | 6,60,000 | |

| | | | |
|---|---|---|---|
| Trade receivables account | Dr. | 7,80,000 | |
| To bank overdraft account | | | 5,40,000 |
| To Trade payables account | | | 5,40,000 |
| To Business purchase account | | | 14,40,000 |
| (Being assets and liabilities of Q Ltd. taken over) | | | |
| Liquidator of P Ltd. Account | Dr. | 21,60,000 | |
| To Equity share capital account (86,400 x ₹ 10) | | | 8,64,000 |
| To Securities premium (86,400 x ₹ 15) | | | 12,96,000 |
| (Being the allotment of shares as per agreement for discharge of purchase consideration) | | | |
| Liquidator of Q Ltd. account | Dr. | 14,40,000 | |
| To Equity share capital account (57,600 x ₹ 10) | | | 5,76,000 |
| To Securities premium (57,600 x ₹ 15) | | | 8,64,000 |
| (Being the allotment of shares as per agreement for discharge of purchase consideration) | | | |
| Bank A/c | | 18,00,000 | |
| To Equity share capital account | | | 7,20,000 |
| To Securities premium | | | 10,80,000 |
| (Equity share capital issued to raise working capital) | | | |

**(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation**

| | | *Particulars* | *Notes* | ₹ |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| 1 | | Shareholders' funds | | |
| | a | Share capital | 1 | 21,60,000 |
| | b | Reserves and Surplus | 2 | 32,40,000 |
| 2 | | Current liabilities | | |
| | a | Trade payables (2,40,000 + 5,40,000) | | 7,80,000 |
| | | Total | | 61,80,000 |
| | | **Assets** | | |
| 1 | | Non-current assets | | |
| | a | Fixed assets | | |

| | | | | |
|---|---|---|---|---|
| | | Tangible assets (7,20,000 + 10,80,000) | | 18,00,000 |
| | | Intangible assets (goodwill) | 4 | 5,40,000 |
| 2 | | Current assets | | |
| | a | Inventories (3,60,000 + 6,60,000) | | 10,20,000 |
| | b | Trade receivables (4,80,000 +7,80,000) | | 12,60,000 |
| | c | Cash and cash equivalents | 3 | 15,60,000 |
| | | Total | | 61,80,000 |

**Notes to accounts**

| | | ₹ |
|---|---|---|
| 1 | **Share Capital** | |
| | Issued, subscribed and paid up share capital | |
| | 2,16,000 Equity shares of ₹10 each | 21,60,000 |
| | (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation) | |
| 2 | **Reserves and Surplus** | |
| | Securities premium | 32,40,000 |
| | (@₹15 for 2,16,000 shares) | |
| 3 | **Cash and cash equivalents** | |
| | Cash at Bank | 15,60,000 |
| 4 | **Intangible Assets** | |
| | Goodwill | 5,40,000 |

**Working Notes:**

1. **Calculation of goodwill of P Ltd.**

| *Particulars* | *Amount* ₹ | *Weight* | *Weighted amount* ₹ |
|---|---|---|---|
| 2014-15 | 3,00,000 | 1 | 3,00,000 |
| 2015-16 | 5,25,000 | 2 | 10,50,000 |
| 2016-17 | 6,30,000 | 3 | 18,90,000 |
| Total (a+b+c) | 14,55,000 | 6 | 32,40,000 |
| weighted Average = [Total weighted amount/Total of weight] [₹ 32,40,000/6] | | | |
| Goodwill | | | 5,40,000 |

2. **Calculation of Net assets**

| | P Ltd. ₹ | Q Ltd. ₹ |
|---|---|---|
| Assets | | |
| Goodwill | 5,40,000 | |
| Fixed assets | 7,20,000 | 10,80,000 |
| Inventory | 3,60,000 | 6,60,000 |
| Trade receivable | 4,80,000 | 7,80,000 |
| Cash at bank | 3,00,000 | |
| *Less:* Liabilities | | |
| Bank overdraft | | 5,40,000 |
| Trade payables | 2,40,000 | 5,40,000 |
| Net assets or Purchase consideration | 21,60,000 | 14,40,000 |

3. **New authorized capital**

= ₹ 14,40,000 + ₹ 12,00 000 = ₹ 26,40,000

4. **Cash and Cash equivalents**

| | ₹ |
|---|---|
| P Ltd. Balance | 3,00,000 |
| Cash received from Fresh issue (72,000 X ₹ 25) | 18,00,000 |
| | 21,00,000 |
| Less: Bank Overdraft | 5,40,000 |
| | 15,60,000* |

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

**6.** **Journal Entries**

| | | ₹ | ₹ |
|---|---|---|---|
| Bank A/c | Dr. | 10,00,000 | |
| To Equity share capital A/c | | | 10,00,000 |
| (Being money on final call received) | | | |
| Equity share capital (₹ 50) A/c | Dr. | 75,00,000 | |
| To Equity share capital (₹ 40) A/c | | | 60,00,000 |
| To Capital Reduction A/c | | | 15,00,000 |
| (Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme) | | | |
| Bank A/c | Dr. | 12,50,000 | |
| To Equity Share Capital A/c | | | 12,50,000 |
| (Being new shares allotted at ₹ 40 each) | | | |

| | | | |
|---|---|---|---|
| Trade payables A/c | Dr. | 12,40,000 | |
| To Equity share capital A/c | | | 7,50,000 |
| To Bank A/c (4,90,000 x 70%) | | | 3,43,000 |
| To Capital Reduction A/c | | | 1,47,000 |
| (Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme) | | | |
| 8% Debentures A/c | Dr. | 3,00,000 | |
| 12% Debentures A/c | Dr. | 4,00,000 | |
| To A A/c | | | 7,00,000 |
| (Being cancellation of 8% and 12% debentures of A) | | | |
| A A/c | Dr. | 7,00,000 | |
| To 15% Debentures A/c | | | 5,00,000 |
| To Capital Reduction A/c | | | 2,00,000 |
| (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme) | | | |
| Bank A/c | Dr. | 1,00,000 | |
| To 15% Debentures A/c | | | 1,00,000 |
| (Being new debentures subscribed by A) | | | |
| 8% Debentures A/c | Dr. | 1,00,000 | |
| 12% Debentures A/c | Dr. | 2,00,000 | |
| To B A/c | | | 3,00,000 |
| (Being cancellation of 8% and 12% debentures of B) | | | |
| B A/c | Dr. | 3,00,000 | |
| To 15% Debentures A/c | | | 2,50,000 |
| To Capital Reduction A/c | | | 50,000 |
| (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme) | | | |
| Land and Building (51,84,000 – 42,70,000) | Dr. | 9,14,000 | |
| Inventories | Dr. | 30,000 | |
| To Capital Reduction A/c | | | 9,44,000 |

| | | | |
|---|---|---|---|
| (Being value of assets appreciated) | | | |
| Outstanding expenses A/c | Dr. | 10,60,000 | |
| To Bank A/c | | | 10,60,000 |
| (Being outstanding expenses paid in cash) | | | |
| Capital Reduction A/c | Dr. | 33,41,000 | |
| To Machinery A/c | | | 1,30,000 |
| To Computers A/c | | | 1,20,000 |
| To Trade receivables A/c | | | 1,09,000 |
| To Profit and Loss A/c | | | 29,82,000 |
| (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets) | | | |
| Capital Reserve A/c | Dr. | 5,00,000 | |
| To Capital Reduction A/c | | | 5,00,000 |
| (Being debit balance of capital reduction account adjusted against capital reserve) | | | |

**Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2017**

| *Particulars* | | | *Notes* | ₹ |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | a | Share capital | 1 | 80,00,000 |
| **2** | | **Non-current liabilities** | | |
| | a | Long-term borrowings | 2 | 8,50,000 |
| | | **Total** | | **88,50,000** |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | a | Fixed assets | | |
| | | Tangible assets | 3 | 63,04,000 |
| **2** | | **Current assets** | | |
| | a | Inventories | | 3,50,000 |
| | b | Trade receivables | | 9,81,000 |
| | c | Cash and cash equivalents | | 12,15,000 |
| | | **Total** | | **88,50,000** |

**Notes to accounts**

| | | | ₹ |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| | 2,00,000 Equity shares of ₹ 40 | | 80,00,000 |
| **2.** | **Long-term borrowings** | | |
| | Secured | | |
| | 15% Debentures (assumed to be secured) | | 8,50,000 |
| **3.** | **Tangible assets** | | |
| | Land & Building | 51,84,000 | |
| | Machinery | 7,20,000 | |
| | Computers | 4,00,000 | 63,04,000 |

**Working Notes:**

1. **Cash at Bank Account**

| | *Particulars* | ₹ | | *Particulars* | ₹ |
|---|---|---|---|---|---|
| To | Balance b/d | 2,68,000 | By | Trade Creditors A/c | 3,43,000 |
| To | Equity Share capital A/c | 10,00,000 | By | Outstanding expenses A/c | 10,60,000 |
| To | Equity Share Capital A/c | 12,50,000 | By | Balance c/d (bal. fig.) | 12,15,000 |
| To | 15% Debentures A/c | 1,00,000 | | | |
| | | 26,18,000 | | | 26,18,000 |

2. **Capital Reduction Account**

| | *Particulars* | ₹ | | *Particulars* | ₹ |
|---|---|---|---|---|---|
| To | Machinery A/c | 1,30,000 | By | Equity Share Capital A/c | 15,00,000 |
| To | Computers A/c | 1,20,000 | By | Trade payables A/c | 1,47,000 |
| To | Trade receivables A/c | 1,09,000 | By | A A/c | 2,00,000 |
| To | Profit and Loss A/c | 29,82,000 | By | B A/c | 50,000 |
| | | | By | Land & Building | 9,14,000 |
| | | | By | Inventories | 30,000 |
| | | | By | Capital Reserve A/c | 5,00,000 |
| | | 33,41,000 | | | 33,41,000 |

7. **Liquidator's Final Statement of Account**

| *Receipts* | ₹ | *Payments* | ₹ |
|---|---|---|---|
| Assets realized | 3,80,400 | Liquidation Expenses | 1,000 |
| Call on contributories: 2,000 | 20,000 | Liquidator's Remuneration | 400 |
| Equity Shares @ ₹ 10 per share | | Unsecured Creditors | 99,000 |
| (W.N.) | | Preference Shareholders | 3,00,000 |
| | 4,00,400 | | 4,00,400 |

**Working Notes:**

| (i) **Calculation of Shortage of funds** | ₹ |
|---|---|
| Total Amount Available | 3,80,400 |
| *Less:* liquidation Expenses | (1,000) |
| Balance | 3,79,400 |
| *Less:* Unsecured Creditors | (99,000) |
| Balance | 2,80,400 |
| *Less:* Pref. Shareholders | (3,00,000) |
| Shortage of Funds | 19,600 |

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹\,19{,}600 \times \frac{100}{100 - 2}$$

$$= \frac{₹19{,}600 \times 100}{98} = ₹\,20{,}000$$

(iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000

(iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share (20,000 /20)

(v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

8. **In the books of Long Live Insurance Co. Ltd.**

**Journal Entries**

| *Date* | *Particulars* | | *(₹ in crores)* | |
|---|---|---|---|---|
| | | | *Dr.* | *Cr.* |
| 1.4.2016 | Unexpired Risk Reserve (Fire) A/c | Dr. | 40.00 | |

| | | | | |
|---|---|---|---|---|
| | Unexpired Risk Reserve (Marine) A/c | Dr. | 30.00 | |
| | Unexpired Risk Reserve (Miscellaneous) A/c | Dr. | 10.00 | |
| | To Fire Revenue Account | | | 40.00 |
| | To Marine Revenue Account | | | 30.00 |
| | To Miscellaneous Revenue Account | | | 10.00 |
| | (Being unexpired risk reserve brought forward from last year) | | | |
| 31.3.2017 | Marine Revenue A/c | Dr. | 30 | |
| | To Unexpired Risk Reserve(Marine) A/c | | | 30 |
| | (Being closing reserve for unexpired risk created at 100% of net premium income for marine) | | | |
| | Fire Revenue A/c | Dr. | 43 | |
| | To Unexpired Risk Reserve(Fire) A/c | | | 43 |
| | (Being closing reserve for unexpired risk created at 50% of net premium income for Fire) | | | |
| | Miscellaneous Revenue A/c | Dr. | 8.5 | |
| | To Unexpired Risk Reserve(Misc.) A/c | | | 8.5 |
| | (Being closing reserve for unexpired risk created at 50% net premium income for Misc.) | | | |

**Working Note:**

**Calculation of Closing balance of Reserve for Unexpired Risks**

| | Marine | Fire | Misc. |
|---|---|---|---|
| Premium Collected from: | | | |
| a. Insured in respect of policies issued | 36.00 | 86.00 | 24.00 |
| b. Other insurance companies in respect of risks undertaken | 14.00 | 10.00 | 8.00 |
| Total (a+b) | 50.00 | 96.00 | 32.00 |
| *Less:* Premium paid/payable to other insurance companies on business ceded | 20.00 | 10.00 | 15.00 |
| | 30.00 | 86.00 | 17.00 |
| % of creation of unexpired Risk Reserve | 100% | 50% | 50% |
| Amount of Closing Unexpired Risk Reserve | 30.00 | 43.00 | 8.50 |

9. **TOP Bank Limited**

**Profit and Loss Account for the year ended 31st March, 2017**

| | | *Schedule* | *Year ended 31.03.2017* |
|---|---|---|---|
| | | | *(₹ in '000s)* |
| **I.** | **Income:** | | |
| | Interest earned | 13 | 5923.18 |
| | Other income | 14 | 728.00 |
| | Total | | 6,651.18 |
| **II.** | **Expenditure** | | |
| | Interest expended | 15 | 3259.92 |
| | Operating expenses | 16 | 768.46 |
| | Provisions and contingencies (960+210+900) | | 2,070.00 |
| | Total | | 6,098.38 |
| **IIII.** | **Profits/Losses** | | |
| | Net profit for the year | | 552.80 |
| | Profit brought forward | | nil |
| | | | 552.80 |
| **IV.** | **Appropriations** | | |
| | Transfer to statutory reserve (25%) | | 138.20 |
| | Balance carried over to balance sheet | | 414.60 |
| | | | 552.80 |

| | | *Year ended 31.3. 2017 (₹ in '000s)* |
|---|---|---|
| | **Schedule 13 – Interest Earned** | |
| I. | Interest/discount on advances/bills (Refer W.N.) | 5923.18 |
| | | 5923.18 |
| | **Schedule 14 – Other Income** | |
| I. | Commission, exchange and brokerage | 304 |
| II. | Profit on sale of investments | 320 |
| III. | Rent received | 104 |
| | | 728 |
| | **Schedule 15 – Interest Expended** | |
| I. | Interests paid on deposits | 3259.92 |

| | Schedule 16 – Operating Expenses | |
|---|---|---|
| I. | Payment to and provisions for employees | 320 |
| II. | Rent and taxes | 144 |
| III. | Depreciation on bank's properties | 48 |
| IV. | Director's fee, allowances and expenses | 48 |
| V. | Auditors' fee | 28 |
| VI. | Law (statutory) charges | 44 |
| VII. | Postage and telegrams | 96.46 |
| VIII. | Preliminary expenses | 40 |
| | | 768.46 |

**Working Note:**

| | *(₹ in '000s)* |
|---|---|
| Interest/discount | 5,929.18 |
| *Add:* Rebate on bills discounted on 31.3. 2016 | 19.00 |
| *Less:* Rebate on bills discounted on 31.3. 2017 | ( 25.00) |
| | 5,923.18 |

**10. Calculation of provision required on advances as on 31st March, 2017:**

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 53,600 | .25 | 134.00 |
| Sub-standard assets | 2,680 | 10 | 268.00 |
| Secured portions of doubtful debts | | | |
| –up to one year | 640 | 20 | 128.00 |
| –one year to three years | 180 | 30 | 54.00 |
| –more than three years | 60 | 50 | 30.00 |
| Unsecured portions of doubtful debts | 194 | 100 | 194.00 |
| Loss assets | 96 | 100 | 96.00 |
| | | | 904.00 |

**11. Calculation of effective yield on per annum basis in respect of two mutual fund schemes up to 31.03.2017**

| | | *X* | *Y* |
|---|---|---|---|
| 1 | Amount of Investment (₹) | 2,00,000 | 4,00,000 |
| 2 | Date of investment | 1.12.2016 | 1.1.2017 |
| 3 | NAV at the date of investment (₹) | 10.50 | 10.00 |
| 4 | No. of units on date of investment [1/3] | 19,047.62 | 40,000 |
| 5 | NAV per unit on 31.03.2017 (₹) | 10.40 | 10.10 |
| 6 | Total NAV of mutual fund investments on 31.03.2017 [4 x 5] | 1,98,095.25 | 4,04,000 |
| 7 | Increase/ decrease of NAV [6-1] | (1,904.75) | 4,000 |
| 8 | Dividend received up to 31.3.2017 | 3,800 | 6,000 |
| 9 | Total yield [7+8] | 1,895.25 | 10,000 |
| 10 | Yield % [9/1] x 100 | 0.95% | 2.5% |
| 11 | Number of days from date of investment | 121 | 90 |
| 12 | Effective yield p.a. [10/11] x 365 days | 2.87% | 10.14% |

**12. Computation of Average Capital employed**

| | | *(₹ in lakhs)* |
|---|---|---|
| Total Assets as per Balance Sheet | | 591.20 |
| *Less*: Non-trade investments (20% of ₹40 lakhs) | | (8.00) |
| | | 583.20 |
| *Less*: Outside Liabilities: | | |
| 10% Debentures | 20.00 | |
| 12% Term Loan | 72.00 | |
| Trade Payables | 64.00 | |
| Provision for Taxation | 25.60 | (181.60) |
| Capital Employed as on 31.03.2017 | | 401.60 |
| *Less*: ½ of profit earned during the year: | | |
| Increase in General Reserve balance | 2.00 | |
| Increase in Profit & Loss A/c | 78.40 | |
| | 80.40 /2 | 40.20 |
| Average capital employed | | 361.40 |

13. **Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31st March, 2017**

| *Particulars* | *Note No.* | *₹ in Lacs* |
|---|---|---|
| I. Revenue from operations | 1 | 11,730 |
| II. Total revenue | | 11,730 |
| III. Expenses | | |
| Cost of Material purchased/Consumed | 3 | 2,360 |
| Changes of Inventories of finished goods | 2 | (2,392) |
| Employee benefit expense | 4 | 1,900 |
| Finance cost | 6 | 300 |
| Depreciation and amortization expense | 7 | 300 |
| Other expenses | 5 | 1,070 |
| Total expenses | | 3,538 |
| IV. Profit before Tax(II-III) | | 8,192 |
| V. Tax Expenses | 8 | 2,800 |
| VI. Profit After Tax | | 5,392 |
| Profit transferred to Consolidated Balance Sheet | | |
| Profit After Tax | | 5,392 |
| Dividend paid | | |
| Hello Ltd. | 2,400 | |
| Sun Ltd. | 300 | |
| | 2,700 | |
| *Less*: Share of Hello Ltd. in dividend of Sun Ltd. | | |
| 80% of ₹ 300 lacs | (240) | (2,460) |
| Profit to be transferred to consolidated balance sheet | | 2,932 |

**Notes to Accounts**

| | | *₹ in Lacs* | *₹ in Lacs* |
|---|---|---|---|
| 1. | Revenue from Operations | | |
| | Sales and other income | | |
| | Hello Ltd. | 10,000 | |
| | Sun Ltd. | 2,000 | |
| | | 12,000 | |

| | | | |
|---|---|---|---|
| | *Less:* Inter-company Sales | (240) | |
| | Consultancy fees received by Hello Ltd. from Sun Ltd. | (10) | |
| | Commission received by Sun Ltd. from Hello Ltd. | (20) | 11,730 |
| 2. | Increase in Inventory | | |
| | Hello Ltd. | 2,000 | |
| | Sun Ltd. | 400 | |
| | | 2,400 | |
| | *Less:* Unrealized profits ₹48 lacs × $\frac{20}{120}$ | (8) | 2,392 |
| | | | 14,122 |
| 3. | Cost of Material purchased/consumed | | |
| | Hello Ltd. | 1,600 | |
| | Sun Ltd. | 400 | |
| | | 2,000 | |
| | *Less*: Purchases by Sun Ltd. from Hello Ltd. | (240) | 1,760 |
| | Direct Expenses | | |
| | Hello Ltd. | 400 | |
| | Sun Ltd. | 200 | 600 |
| | | | 2,360 |
| 4. | Employee benefits and expenses | | |
| | Wages and Salaries: | | |
| | Hello Ltd. | 1,600 | |
| | Sun Ltd. | 300 | 1,900 |
| 5. | Other Expenses | | |
| | Administrative Expenses | | |
| | Hello Ltd. | 400 | |
| | Sun Ltd. | 200 | |
| | | 600 | |
| | *Less*: Consultancy fees received by Hello Ltd. from Sun Ltd. | (10) | 590 |
| | Selling and Distribution Expenses: | | |
| | Hello Ltd. | 400 | |

| | | | |
|---|---|---|---|
| | Sun Ltd. | 100 | |
| | | 500 | |
| | *Less*: Commission received from Sun Ltd. from Hello Ltd. | (20) | 480 |
| | | | 1,070 |
| 6. | Finance Cost | | |
| | Interest: | | |
| | Hello Ltd. | 200 | |
| | Sun Ltd. | 100 | 300 |
| 7. | Depreciation and Amortization | | |
| | Depreciation: | | |
| | Hello Ltd. | 200 | |
| | Sun Ltd. | 100 | 300 |
| 8. | Provision for tax | | |
| | Hello Ltd. | 2,400 | |
| | Sun Ltd. | 400 | 2,800 |

**Note:** Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

**14.** In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

**15. (a)**

| | *₹ in crore* |
|---|---|
| Cost of construction of bridge incurred 31.3.16 | 4.00 |
| *Add*: Estimated future cost | 6.00 |
| Total estimated cost of construction | 10.00 |
| Contract Price (12 crore x 1.05) | 12.60 crore |

**Stage of completion**

Percentage of completion till date to total estimated cost of construction

= $(4/10)\times100$ = 40%

**Revenue and Profit to be recognized for the year ended 31st March, 2016 as per AS 7**

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=₹ 12.60 crore x 40% =₹ 5.04 crore

Profit for the year ended 31st March, 2016 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

**(b)** According to AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

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

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

Thus, sales will be recognized only when following two conditions are satisfied:

(i) The sale value is fixed and determinable.

(ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 15.3.2016 when sales are agreed upon at a price and goods are allocated for delivery purpose through invoice. The amount of net profit ₹ 1,50,000 (3,50,000 – 2,00,000) would be recognized in the books for the year ending 31st March, 2016.

**16. (a)** In case of a Company, the Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per Sec 2(76) of Companies Act, 2013, a related party includes a director or his relative. Sec 2(34) defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as related party transaction.

**(b) (i) Computation of annual lease payment to the lessor**

| | ₹ |
|---|---|
| Cost of equipment | 16,99,999.50 |
| Unguaranteed residual value | 1,33,500.00 |
| Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751) | 1,00,258.50 |
| Fair value to be recovered from lease payments (₹ 16,99,999.5– ₹ 1,00,258.5) | 15,99,741.00 |
| Present value of annuity for three years is 2.486 | |
| Annual lease payment = ₹ 15,99,741/ 2.486 | 6,43,500.00 |

**(ii) Computation of Unearned Finance Income**

| | ₹ |
|---|---|
| Total lease payments (₹ 6,43,500 x 3) | 19,30,500 |
| *Add:* Unguaranteed residual value | 1,33,500 |
| Gross investment in the lease | 20,64,000.00 |
| *Less:* Present value of investment (lease payments and residual value) (₹ 1,00,258.5+ ₹ 15,99,741) | (16,99,999.50) |
| Unearned finance income | 3,64,000.50 |

**17. Computation of basic earnings per share**

Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 75,00,000 / 10,00,000 = ₹ 7.50 per share

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

**Adjusted net profit for the current year**

| | ₹ |
|---|---|
| Net profit for the current year | 75,00,000 |
| *Add*: Interest expense for the current year | 8,00,000 |
| *Less*: Tax relating to interest expense (30% of ₹ 8,00,000) | (2,40,000) |
| Adjusted net profit for the current year | 80,60,000 |

**Number of equity shares resulting from conversion of debentures**

= 1,10,000 Equity shares (given in the question)

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

= 11,10,000 shares (10,00,000 + 1,10,000)

**Diluted earnings per share**

= 80,60,000/ 11,10,000 = ₹ 7.26 per share

**Note:** Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

**18.** As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a **single plan**, is:

(1) disposing of substantially in its entirety,

(2) disposing of piecemeal, or

(3) terminating through abandonment; and

(ii) that represents a separate **major line** of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

**19.** As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2017.

**20.** As per provisions of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.