PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For NOVEMBER, 2018 EXAMINATION

A. Applicable for November, 2018 Examination

I. Companies Act, 2013

Relevant sections of the Companies Act, 2013 notified up to 30th April, 2018 will be applicable for November, 2018 Examination.

II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for November, 2018 examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the accounting standards relevant for Paper 5:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 4	Footnote to AS 4	Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal	All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central	Footnote has been modified.

		with contingencies (viz. paragraphs 1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4.	Government. For example, the impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	
	8.5	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.	There are events which, although take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are	No liability for proposed dividends must be created now. Such proposed dividends are to be disclosed in the notes.

			approved for issue, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.	
	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognize those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.	No liability for proposed dividends should be created now. Such proposed dividends are to be disclosed in the notes.
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.

	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013
AS 29	35 (An extract)	The amount of a provision should not be discounted to its present value.	The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognized as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that	Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein.

			reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should be recognized in the statement of profit and loss.	
	73		**Transitional Provisions** All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.	Discounting of above existing provisions and similar liabilities should be prospectively, with the correspondin g effect to the related item of property, plant and equipment.

III Provisions of the Companies Act, 2013 related with Liquidation of Companies

As per Section 2 (94A) of the Companies Act, 2013, winding up means winding up under this Act. As per section 270, the provision of Part I should apply to the winding up of a company by the Tribunal under this Act.

Circumstances in which Company may be wound up by Tribunal [Section 271]

(a) The company has resolved that the company be wound up by the Tribunal.

(b) The company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality

(c) The Registrar or any other person authorized by the Central Government by notification under this Act can make an application to tribunal. The Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.

(d) The company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding 5 consecutive financial years.

(e) The Tribunal is of the opinion that it is just and equitable that the company should be wound up.

A company may file petition for winding up under section 272 of the Companies Act, 2013. Petition for winding up to Tribunal cab neb made by the company, any contributory or contributories, the registrar, any person authorized by Central Govt. in that behalf or Ii case affairs of the company have been conducted in a Fraudulent manner, by the Central Government or a State Government.

Petition by Contributory

A contributory should be entitled to present a petition for the winding up of a company. Shares in respect of which he is a contributory were either originally allotted to him or have been held by him for at least 6 months during the 18 months immediately before the commencement of the winding up and registered in his name or have transferred to him through the death of a former holder.

Petition by Registrar

The Registrar should be entitled to present a petition for winding up under section 271, except on the grounds specified in section 271 (a) or (e). The Registrar should obtain the previous sanction of the Central Government to the presentation of a petition. The Central Government should not accord its sanction unless the company has been given a reasonable opportunity of making representations.

Petition by Company

A petition presented by the company for winding up before the Tribunal should be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

A copy of the petition made under this section should also be filed with the Registrar and the Registrar should, without prejudice to any other provisions, submit his views to the Tribunal within 60 days of receipt of such petition.

A company may be wound up voluntarily [Section 304[1]],:

(a) if the company in general meeting passes a resolution requiring the company to be wound up voluntarily as a result of the expiry of the period for its duration, if any, fixed by its articles or on the occurrence of any event in respect of which the articles provide that the company should be dissolved; or

(b) if the company passes a special resolution that the company be wound up.

Liquidators' Statement of Account

In case of Compulsory wound-up, the Company Liquidator should keep proper books in such manner, as may be prescribed, in which he should cause entries or minutes to be made of proceedings at meetings and of such other matters as may be prescribed.

Any creditor or contributory may, subject to the control of the Tribunal, inspect any such books, personally or through his agent.

While preparing the liquidator's statement of account, receipts are shown in the following order:

(a) Amount realized from assets are included in the prescribed order.

(b) In case of assets specifically pledged in favour of creditors, only the surplus from it, if any, is entered as 'surplus from securities'.

(c) In case of partly paid up shares, the equity shareholders should be called up to pay necessary amount (not exceeding the amount of uncalled capital) if creditors' claims/claims of preference shareholders can't be satisfied with the available amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying of creditors.

(d) Amounts received from calls to contributories made at the time of winding up are shown on the Receipts side.

(e) Receipts per Trading Account are also included on the Receipts side.

(f) Payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order:

(a) Legal charges;

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[1]*Applicable until 31 March 2017; with effect from 1 April 2017, Section 59 of the Insolvency and Bankruptcy Code, 2016 is applicable.*

(b) Liquidator's expenses;

(c) Debenture holders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);

(d) Creditors:

  (i) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge);

  (ii) Unsecured creditors;

(e) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and

(f) Equity shareholders.

Commencement of Winding Up by Tribunal [Section 357]

Where, before the presentation of a petition for the winding up of a company by the Tribunal, a resolution has been passed by the company for voluntary winding up, the winding up of the company should be deemed to have commenced at the time of the passing of the resolution, and unless the Tribunal, on proof of fraud or mistake, thinks fit to direct otherwise, all proceedings taken in the voluntary winding up should be deemed to have been validly taken.

In any other case, the winding up of a company by the Tribunal should be deemed to commence at the time of the presentation of the petition for the winding up.

Exclusion of Certain Time in Computing Period of Limitation [Section 358]

Notwithstanding anything in the Limitation Act, 1963, or in any other law for the time being in force, in computing the period of limitation specified for any suit or application in the name and on behalf of a company which is being wound up by the Tribunal, the period from the date of commencement of the winding up of the company to a period of one year immediately following the date of the winding up order should be excluded.

Statement of Affairs

In case of winding up by Tribunal, Section 272(5) of the Companies Act, 2013 provides that a petition presented by the company for winding up before the Tribunal shall be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

In accordance with Section 274(1), where a petition for winding up is filed before the Tribunal by any person other than the company, the Tribunal shall, if satisfied that a prima facie case for winding up of the company is made out, by an order direct the company to file its objections along with a statement of its affairs within thirty days of the order in such form and in such manner as may be prescribed. The Tribunal may allow a further period of thirty days in a situation of contingency or special circumstances.

The broad lines on which the Statement of Affairs is prepared are the following —

(1) Include assets on which there is no fixed charge at the value they are expected to realize. Students should note to include calls in arrear but not uncalled capital.

(2) Include assets on which there is a fixed charge. The amount expected to be realized would be compared with the amount due to the creditor concerned. Any **surplus** is to be extended to the other column. A **deficit** (the amount owed to the creditor exceeding the amount realizable from the asset) is to be added to unsecured creditors.

(3) The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors (except secured creditors already covered by specifically mortgaged assets).

(4) From the total assets available, the following should be deducted one by one:-

 (i) Preferential creditors,

 (ii) Debentures having a floating charge, and

 (iii) Unsecured creditors.

 If a minus balance emerges, there would be deficiency as regards creditors, otherwise there would be a surplus.

(5) The amount of total paid-up capital (giving details of each class of shares) should be added and the figure emerging will be deficiency (or surplus) as regards members.

Note: Statement of affairs should accompany eight lists:

List A Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes, salaries, wages and otherwise.

List D List of debenture holders secured by a floating charge.

List E Unsecured creditors.

List F List of preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

Deficiency Account

The official liquidator will specify a date for period (minimum three years) beginning with the date on which information is supplied for preparation of an account to explain the deficiency or surplus. On that date either assets would exceed capital plus liabilities, that is, there would be a reserve or there would be a deficit or debit balance in the Profit and Loss Account. The Deficiency account is divided into two parts:

1. The first part starts with the deficit (on the given date) and contains every item that increases deficiency (or reduces surplus such as losses, dividends etc.).
2. The second part starts with the surplus on the given date and includes all profits.

If the total of the first exceeds that of the second, there would be a deficiency to the extent of the difference, and if the total of the second part exceeds that of the first, there would be a surplus.

Overriding Preferential Payments [Section 326]: In the winding up of a company under this Act, the following debts should be paid in priority to all other debts:

a. workmen's dues; and
b. where a secured creditor has realized a secured asset, so much of the debts due to such secured creditor as could not be realized by him or the amount of the workmen's portion in his security (if payable under the law), whichever is less, pari- passu with the workmen's dues:

Explanation: For the purposes of this section, and section 327 -

a) **Workmen,** in relation to a company, means the employees of the company, being workmen within the meaning of Section 2 (s) of the Industrial Disputes Act, 1947;

b) **Workmen's dues,** in relation to a company, means the aggregate of the following sums due from the company to its workmen, namely:

   (i) All wages or salary including wages payable;

   (ii) all accrued holiday remuneration becoming payable to any workman

   (iii) unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company or unless the company has, at the commencement of the winding up, under such a contract with insurers as is mentioned in section 14 of the Workmen's Compensation Act, 1923 (19 of 1923), rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any workman of the company;

   (iv) all sums due to any workman from provident fund, pension fund, gratuity fund or any other fund maintained by the company.

   The following payment should be made in priority to secured creditors:

   (i) All wages or salary including wages payable;

   (ii) all accrued holiday remuneration becoming payable to any workman

(iii) If the above payments are payable for a period of 2 years preceding the winding up order then the same shall be paid in priority to all other debts (including debts due to secured creditors), within a period of 30 days of sale of assets and shall be subject to such charge over the security of secured creditors.

c) **Workmen's portion,** in relation to the security of any secured creditor of a company, means the amount which bears to the value of the security the same proportion as the amount of the workmen's dues bears to the aggregate of the amount of workmen's dues and the amount of the debts due to the secured creditors.

Preferential Creditors

In a winding up there should be paid in priority to all other debts subject to the provisions of section 326.

Preferential Creditors are as follows:

a. **Government Taxes:** All revenues, taxes, cess and rates due from the company to the Central Government or a State Government or to a local authority at the relevant date, and having become due and payable within the twelve months immediately before that date;

b. **Salary and Wages:** All wages or salary including wages payable for time or piece work and salary earned wholly or in part by way of commission of any employee in respect of services rendered to the company and due for a period not exceeding four months within the 12 months immediately before the relevant date, subject to the condition that the amount payable under this clause to any workman should not exceed such amount as may be notified;

c. **Holiday Remuneration:** All accrued holiday remuneration becoming payable to any employee, or in the case of his death, to any other person claiming under him, on the termination of his employment before, or by the winding up order, or, as the case may be, the dissolution of the company;

d. **Contribution under ESI Act:** Unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company, all amount due in respect of contributions payable during the period of twelve months immediately before the relevant date by the company as the employer of persons under the Employees' State Insurance Act, 1948 or any other law for the time being in force;

e. **Compensation in respect of death of disablement:** Unless the company has, at the commencement of winding up, under such a contract with any insurer as is mentioned in section 14 of the Workmen's Compensation Act, 1923, rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any employee of the company: Where any compensation under the said Act is a weekly payment, the amount payable under this clause should be taken to be the amount of the lump sum for which such weekly payment could, if redeemable, be redeemed, if the employer has made an application under that Act;

f. **PF, Pension Fund or Gratuity Fund:** All sums due to any employee from the provident fund, the pension fund, the gratuity fund or any other fund for the welfare of the employees, maintained by the company; and

g. **Expenses of Investigation:** The expenses of any investigation held in pursuance of sections 213 and 216, in so far as they are payable by the company.

Where any advance payment has been made to any employee of a company on account of wages or salary or accrued holiday remuneration himself by some person for that purpose. The person by whom the money was advanced should have a right of priority in respect of the money so advanced and paid-up to the amount. The sum in respect of which the employee or other person in his right would have been entitled to priority in the winding up has been reduced by reason of the payment having been made.

The debts enumerated in this section should—

h. rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they should abate in equal proportions; and

i. so far as the assets of the company available for payment to general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.

The debts under this section should be discharged forthwith so far as the assets are sufficient to meet them, subject to the retention of such sums as may be necessary for the costs and expenses of the winding up.

In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months immediately before the date of a winding up order, the debts to which priority is given under this section should be a first charge on the goods or effects so distrained on or the proceeds of the sale thereof: Provided that, in respect of any money paid under any such charge, the landlord or other person should have the same rights of priority as the person to whom the payment is made. Any remuneration in respect of a period of holiday or of absence from work on medical grounds through sickness or other good cause should be deemed to be wages in respect of services rendered to the company during that period.

Explanations: For the purposes of this section,

- **Accrued Holiday Remuneration includes,** in relation to any person, all sums which, by virtue either of his contract of employment or of any enactment including any order made or direction given thereunder, are payable on account of the remuneration which would, in the ordinary course, have become payable to him in respect of a period of holiday, had his employment with the company continued until he became entitled to be allowed the holiday;

- **Employee** does not include a workman; and
- **Relevant Date** means in the case of a company being wound up by the Tribunal, the date of appointment or first appointment of a provisional liquidator, or if no such appointment was made, the date of the winding up order, unless, in either case, the company had commenced to be wound up voluntarily before that date under the Insolvency and Bankruptcy Code, 2016.

Effect of Floating Charge [Section 332]

Where a company is being wound up, a floating charge on the undertaking or property of the company created within the 12 months immediately preceding the commencement of the winding up, should be invalid unless it is proved that the company immediately after the creation of the charge was solvent except for the amount of any cash paid to the company at the time of and in consideration for or subsequent to the creation of the charge together with interest on that amount at the rate of 5 per cent per annum or such other rate as may be notified by the Central Government in this behalf.

B List Contributories

(a) **Persons**: Shareholders who had transferred Partly Paid Shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories.

(b) **Liability**: Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only.

(c) **Conditions**: Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.

IV. 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.

V. 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.

VI. Relevant Provisions of the Insurance Act [updated as per the Insurance (Amendment) Act, 2015]

The provisions of sections 10 and 11 have been modified vide the Insurance Laws (Amendment) Act, 2015. These amendments have necessitated changes to the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations 2002. The significant provisions are as follows:

(1) Forms for final accounts [Section 11(1)]. Every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, should, at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified.

(2) Audit [Section 12]: The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of every insurer, in respect of all insurance business transacted by him, should, unless they are subject to audit under the Companies Act, 2013, be audited annually by an auditor, and the auditor should in the audit of all such accounts have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by Section 147 of the Companies Act, 2013.

(3) Register of policies [Section 14(1)]: Every insurer, in respect of all business transacted by him, should maintain— (a) a record of policies, in which should be entered, in respect of every policy issued by the insurer, the name and address of the policyholder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice; (b) a record of claims, every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds thereof; and (c) a record of policies and claims in accordance with clauses (a) and (b) may be maintained in any such form, including electronic mode, as may be specified by the regulations made under this Act.

(4) Approved investments (Section 27B(1)): A company carrying on general insurance business must invest its funds only in approved securities listed in this section.

(5) Payment of commission to authorized agents (Section 40(1)): As per the Insurance (Amendment) Act 2015, no person should, pay or contract to pay any remuneration or reward, whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent or an intermediary or insurance intermediary in such manner as may be specified by the regulations.

(6) Limit on expenditure (Sections 40B and 40C): As per the Insurance (Amendment) Act 2015 No insurer should, in respect of insurance business transacted by him in India, spend as expenses of management in any financial year any amount exceeding the amount as may be specified by the regulations made under this Act and every insurer transacting insurance business in India should furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act."

(7) Sufficiency of assets [Section 64VA(1)]: Every insurer and re-insurer should at all times maintain an excess of value of assets over the amount of liabilities of, not less than fifty per cent. of the amount of minimum capital as stated under section 6 and arrived at in the manner specified by the regulations.

(8) Segregation of Policyholders' and Shareholders' Funds by the insurers carrying on General Insurance, Health Insurance and Reinsurance business: Section 11 (2) of

the Insurance Laws (Amendment) Act, 2015 mandates that every insurer shall keep separate funds of shareholders and policyholders.

(9) Unearned Premium Reserve (UPR): A Reserve for Unearned Premium shall be created as the amount representing that part of the premium written which is attributable to, and is to be allocated to the succeeding accounting periods. Such Reserves shall be computed as under:

a) Marine Hull: 100 percent of Net Written Premium during the preceding twelve months;

b) Other Segments: Insurers have an option to create UPR either at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies.

The insurers can follow either percentage or 1/365th method for computation of UPR of the other segments. However, Insurers shall follow the method of provisioning of UPR in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.

10. Recoupment of the Deficit: Every Insurer shall ensure that the policyholders' fund is fully supported by the policyholders' investments shown in Schedule-SA. Therefore, any deficit/shortfall in policyholders' investments arising out of the loss in the Revenue Account or otherwise shall be recouped by transfer of securities from the shareholders' investments to the policyholders' investments on a half yearly basis. The valuation of such securities shall be in accordance with the valuation norms as specified in the IRDA (Preparation of Financial Statements and Auditors' Report) Regulations, 2002.

11. Investment made out of the policyholders' funds: Investment made out of the policyholders' funds shall be shown in a separate schedule i.e., 8 A. The format of the same is given as below:

Annexure

SCHEDULE- 8A

INVESTMENTS-POLICYHOLDERS

Particulars	Current Year	Previous Year
	('000)	**('000)**
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		

(a) Shares - i) Equity; ii) Preference (b) Mutual Funds (c) Debentures/ Bonds (d) Investment Property-Real Estate (e) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
Sub-Total		
SHORT TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares- i) Equity ii) Preference (b) Mutual Funds (c) Debentures/ Bonds (d) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
Sub-Total		
Total		

Note: The above amendments have also been covered in the respective chapters (2, 4, 5 and 6) webhosted at the BOS Knowledge portal.

B. Not applicable for November, 2018 examination

Non-Applicability of Ind AS for November, 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 November, 2018 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. A, B and C are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2018 is as below:

Liabilities	₹	Assets	₹
A's Capital	1,20,000	Factory Building	1,93,280
B's Capital	80,000	Plant and Machinery	1,30,200
C's Capital	1,00,000	Trade Receivable	43,200
B's Loan	36,000	Inventories	99,120
Trade Payable	1,32,000	Cash at Bank	2,200
	4,68,000		4,68,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. The partners decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	1,49,200
Second instalment	1,38,602
Third instalment	80,000
Last instalment	56,000

Dissolution expenses were provided for estimated amount of	₹ 24,000
The trade payables were were settled finally for	₹ 1,27,200

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

Amalgamation of Partnership firms

2 P and Q are partners of P & Co., sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2:1. On 31st March, 2018, they decide to amalgamate and form a new firm M/s PQR & Co. wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	*P & Co.*	*R & Co.*	*Assets*	*P & Co.*	*R & Co.*
	(₹)	*(₹)*		*(₹)*	*(₹)*
Capitals:			Fixed assets:		
P	2,50,000	-	Building	50,000	60,000
Q	1,80,000	2,20,000	Plant & Machinery	1,60,000	1,70,000

R		1,20,000	Office Equipment	50,000	46,000
Reserves	60,000	1,50,000	Current assets:		
Sundry Creditors	1,30,000	1,36,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	-	1,00,000	Sundry Debtors	1,60,000	2,00,000
Bank Overdraft	80,000	-	Bank Balance	40,000	1,00,000
			Cash in hand	20,000	10,000
			Due from R& Co.	1,00,000	-
	7,00,000	7,26,000		7,00,000	7,26,000

The amalgamated firm took over the business on the following terms:

(a) Building of P & Co. was valued at ₹ 1,50,000.

(b) Plant & Machinery of P & Co. was valued at ₹ 2,75,000 and that of R & Co. at ₹ 2,50,000.

(c) All stock in trade is to be appreciated by 20%.

(d) Goodwill of P & Co. was valued at ₹ 1,20,000 and of R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.

(e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

(f) Provisions for doubtful debts has to be carried forward at ₹ 15,000 in respect of debtors of P & Co. and ₹ 30,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

Sale of Partnership firm to Company

3. Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2017 was:

Liabilities		₹	Assets		₹
Sundry Creditors		1,44,000	Stock		1,44,000
Bank Overdraft		84,000	Machinery		3,60,000
Capital A/cs:			Debtors		1,68,000
			Joint Life Policy		21,600
Ali	3,36,000		Leasehold Premises		81,600
Beta	3,12,000	6,48,000	Profit & Loss A/c		62,400

			Drawing A/c:		
			Ali	24,000	
			Beta	14,400	38,400
		8,76,000			8,76,000

The business was carried on till 30-06-2018. On 30-06-2018, the firm sold the business to a limited company. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-06-2018, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹ 24,000 and bank overdraft by ₹ 36,000.

On 30-06-2018, stock was valued at ₹ 1,80,000 and debtors at ₹ 1,44,000; the Joint Life Policy had been surrendered for ₹ 21,600 before 30-06-2018 and other items remained the same as at 31-12-2017.

At the time of sale to company, the value of goodwill was fixed at ₹ 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-06-2018. The company paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:

(a) Balance Sheet of the firm as at 30-06-2018;

(b) Realisation Account; and

(c) Partners' Capital Accounts showing the final settlement between them.

LLP

4. Write short note on Designated Partner in a Limited Liability Partnership and explain the liabilities of designated partners.

ESOPs

5. JKS Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2018 it granted 5,000 employee stock options at ₹ 30 per share, when the market price was ₹ 50 per share. The options were to be exercised between 15th March, 2018 and 31st March, 2018. The employees exercised their options for 3,600 shares only and the remaining options lapsed. The company closes its books on 31st March every year. Show Journal entries (with narration) as would appear in the books of the company up to 31st March, 2018.

Buy Back of Securities

6. The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	₹	₹
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of ₹ 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹ 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of ₹ 100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000
Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹ 60 per share. For this purpose, it sold all of its investment for ₹ 25,00,000.

The company achieved its target of buy-back. You are required to:

(a) Pass necessary journal entries and

(b) Prepare the Balance Sheet of the company after buy back of shares.

Redemption of Debentures

7. The summarized Balance Sheet of Spices Ltd. as on 31st March, 2018 read as under:

	₹
Liabilities:	
Share Capital: 9,000 equity shares of ₹ 10 each fully paid up	90,000
General Reserve	38,000
Debenture Redemption Reserve	35,000
12% Convertible Debentures : 1,200 Debentures of ₹ 50 each	60,000
Unsecured Loans	28,000
Short term borrowings	19,000
	2,70,000
Assets:	
Fixed Assets (at cost less depreciation)	72,000
Debenture Redemption Reserve Investments	34,000
Cash and Bank Balances	86,000
Other Current Assets	78,000
	2,70,000

The debentures are due for redemption on 1st April, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of ₹ 11 per share and the balance payment in cash.

Assuming that:

(i) Except for debentureholders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realized ₹ 56,000 on sale,

(iii) All the transactions were taken place on 1st April, 2018,

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

You are required to

(a) Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption.

(b) Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Underwriting of Shares

8. M/s. Abhi Ltd. issued 2,00,000 shares of ₹ 10 each at a premium of ₹ 20. The entire issue was underwritten as follows:

Amit – 1,20,000 shares (Firm underwriting 10,000 shares)

Sumit – 50,000 shares (Firm underwriting 6,000 shares)

Lalit – 30,000 shares (Firm underwriting 4,000 shares)

Unmarked applications received by the company (excluding firm underwriting) were 25,000 shares.

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

Amit – 80,000 shares

Sumit – 35,000 shares

Lalit– 24,800 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

(i) Determine the liability of each underwriter (number of shares);

(ii) Compute the amounts payable or due from underwriters; and

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

Amalgamation of Companies

9. The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	*ALex Ltd. (₹)*	*Beta Ltd. (₹)*
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	37,80,000	15,96,000
Liabilities	*ALex Ltd. (₹)*	*Beta Ltd. (₹)*
Share Capital:		
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000

Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000

Beta Ltd.is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(a) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(b) Show the acquisition entries in the books of Alex Ltd.

(c) Also draft the Balance Sheet after absorption as at 31st March, 2017.

Internal Reconstruction of a Company

10. The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	**Amount in ₹**
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	**81,00,000**

Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	**81,00,000**

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

Liquidation of Company

11. Liquidation of YZ Ltd. commenced on 2nd April, 2018. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2017and 2018:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2017	₹ 5,000
P	1,500	1st May, 2017	₹ 3,300
Q	1,000	1st October, 2017	₹ 4,300
R	500	1st November, 2017	₹ 4,600
S	300	1st February, 2018	₹ 6,000

All the shares were of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

Financial Statements of Insurance Companies

12. From the following information furnished to you by Bharat Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2017.

(a) On 1.04.2016, it had reserve for unexpired risks amounting to ₹ 55 crores. It comprised of ₹ 21 crores in respect of marine insurance business, ₹ 28 crores in respect of fire insurance business and ₹ 6 crores in respect of miscellaneous insurance business.

(b) Bharat Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

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

	(₹ in crores)		
	Marine	Fire	Miscellaneous
Premium collected from:			
(a) Insured in respect of policies issued (Direct Business)	22.0	46.00	13.00
(b) Other insurance companies in respect of risks undertaken:			
Received during the year	11.5	9.2	5.5
Receivable – 01.04.16	7.0	3.0	1.5
Receivable – 31.03.17	4.0	1.0	1.0
Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8.0

Financial Statements of Banking Companies

13. From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Supreme Bank Limited' for the year ending 31st March, 2018:

Income	₹ in lakhs	Expenditure	₹ in lakhs
Interest and discount	1,835	Interest expended	1,136
Interest accrued on Investments	8	Printing & stationery	18
Commission, exchange and brokerage	12	Repair & maintenance	2
Profit on sale of investments	1	Payment to and provision for employees (salaries, bonus etc.)	80
Rent received	2	Other Operating Expenses	5

Additional Information:

		₹ in lakhs
(i)	Rebate on bills discounted to be provided for	3
(ii)	Classifications of Advances:	
	Standard Assets	4,100
	Sub-Standard Assets (fully secured)	380
	Doubtful Assets not covered by security	155
	Doubtful Assets covered by security	
	For 1 year	10
	More than 1 year, but less than 2 years	18
	More than 2 years, but less than 3 years	35
	More than 3 years	22
	Loss Assets	50
(iii)	Make tax provisions @ 35% of the profit.	
(iv)	Profit and Loss Account (Cr.) brought forward from the previous year	65

Departmental Accounts

14. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2017 after adjusting the unrealized department profits if any.

	Deptt. A ₹	*Deptt. B* ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

15. Pass necessary Journal entries in the books of an independent Branch of M/s TPL Sons, wherever required, to rectify or adjust the following transactions:

(i) Branch paid ₹ 5,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(ii) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

(iii) Branch assets accounts retained at head office, depreciation charged for the year ₹ 15,000 not recorded by Branch.

(iv) Head Office expenses ₹ 75,000 allocated to the Branch, but not yet been recorded by the Branch.

(v) Head Office collected ₹ 60,000 directly from a Branch Customer. The intimation of the fact has not been received by the Branch.

(vi) Goods dispatched by the Head office amounting to ₹ 50,000, but not received by the Branch till date of reconciliation.

(vii) Branch incurred advertisement expenses of ₹ 10,000 on behalf of other Branches, but not recorded in the books of Branch.

(viii) Head office made payment of ₹ 16,000 for purchase of goods by branch, but not recorded in branch books.

Framework for Preparation and Presentation of Financial Statements

16. (a) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

(b) Mohan started a business on 1st April 2017 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Mohan in the year 2017-18 if Financial Capital is maintained at historical cost.

Accounting Standards

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

17. (a) While preparing its final accounts for the year ended 31st March, 2017, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2017 a debtor for ₹ 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2017? You are required to comment with reference to AS 4.

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Polices

(b) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. Please advise him in the following situations in accordance with the provisions of AS 5;

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

AS 12 Government Grants

18. (a) A specific government grant of ₹ 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Diary plant of ₹ 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 10.50 lakhs and written down value of plant was ₹ 66.50 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of ₹ 56 lakhs as on 1.4.2017?

AS 16 Borrowing Costs

(b) Superbright Ltd. issued 10% secured debentures of ₹ 25 Lakhs on 30.06.2016. These debentures have floating charge on fixed assets. Money raised from debentures to be utilized as under:

Particulars	Amount (₹ in lakhs)
Construction of factory building	8
Purchase of Machinery	10
Working Capital	7

Additional information

(i) Interest on debentures for the year 2016-17 was paid by the company.

(ii) In March 2017, machinery was installed and ready for its intended use.

(iii) During the year the company had invested idle fund of ₹4 lakhs (out of money raised from debentures) in banks' fixed deposit and had earned an interest of ₹ 24,000.

(iv) Construction of the factory building was completed after July 2017.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

AS 19 Leases

19. (a) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 40,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

AS 20 Earnings Per Share

(b) The following information is available for TON Ltd. for the accounting year 2015-16 and 2016-17:

Net profit for		₹
Year	2015-16	35,00,000
Year	2016-17	45,00,000

No of shares outstanding prior to right issue 15,00,000 shares.

Right issue : One new share for each 3 shares outstanding i.e. 5,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2016

Fair value of one equity share immediately prior to exercise of rights on 31.07.2016 is ₹ 35.

You are required to compute:

(i) Basic earnings per share for the year 2015-16.

(ii) Restated basic earnings per share for the year 2015-16 for right issue.

(iii) Basic earnings per share for the year 2016-17.

AS 26 Intangible Assets

20 (a) Desire Ltd. acquired a patent at a cost of ₹ 1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on SLM. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 45,00,000, ₹ 42,00,000, ₹ 40,00,000, ₹ 38,00,000 and ₹ 35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows).

You are required to compute the amortization cost of the patent for each of the years.

(1st year to 7th year)

AS 29 Provisions, Contingent Liabilities and Contingent Assets

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

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

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

SUGGESTED ANSWERS

1. Statement showing distribution of cash amongst the partners

		Trade Payable	*B's Loan*	*A (₹)*	*B (₹)*	*C (₹)*
Balance Due Including 1st Instalment amount with the firm		1,32,000	36,000	1,20,000	80,000	1,00,000

₹ (2,200 + 1,49,200)	1,51,400					
Less: Dissolution expenses provided for	(24,000)					
	1,27,400					
Less: C's remuneration of 1% on assets realized (1,49,200 x 1%)	(1,492)					
	1,25,908					
Less: Payment made to Trade Payables	1,25,908	1,25,908				
Balance due	NIL	6,092				
2nd instalment realised	1,38,602					
Less: C's remuneration of 1% on assets realized (1,38,602 x 1%)	(1,386) 1,37,216					
Less: Payment made to Trade Payables	(1,292)	(1,292)				
Transferred to P& L A/c		4,800				
	1,35,924					
Less: Payment for B's loan A/c	(36,000)		36,000			
Amount available for distribution to partners	99,924		NIL			
Less: C's remuneration of 10% of the amount distributed	(9,084)					

to partners (99,924 x 10/110)						
Balance to be distributed to partners on the basis of HRCM	90,840					
Less: Paid to C (W.N.)	(4,000)					(4,000)
	86,840					96,000
Less: Paid to A and C in 5:4 (W.N.)	(36,000)			(20,000)	—	(16,000)
Balance due	50,840			1,00,000	80,000	80,000
Less: Paid to A, B & C in 5:4:4	50,840			(19,554)	15,643	(15,643)
	Nil					
Amount of 3rd instalment	80,000			80,446	64,357	64,357
Less: C's remuneration of 1% on assets realized (80,000 x 1%)	(800)					
	79,200					
Less: C's remuneration of 10% of the amount distributed to partners (79,200 x 10/110)	(7,200)					
	72,000					
Less: Paid to A,B, C in 5:4:4 for (W.N.)	(72,000)			(27,692)	22,154	(22154)
	nil			52,754	42,203	42203
Amount of 4th and last instalment	56,000					

Less: C's remuneration of 1% on assets realized (56,000 x 1%)	(560)					
	55,440					
Less: C's remuneration of 10% of the amount distributed to partners (55,440 x 10/110)	(5,040)					
Less: Paid to A, B and C in 5:4:4	50,400					
	Nil			(19,384)	15,508	(15508)
Loss suffered by partners				33,370	26,695	26695

Working Note:

(i) ₹ 2,200 added to the first instalment received on sale of assets represents the Cash in Bank

(ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹ 6,092. However, since the creditors were settled for ₹ 1,27,200 only the balance ₹ 1,292 were paid and the balance ₹ 4,800 was transferred to the Profit & Loss Account.

(iii) **Highest Relative Capital Basis**

	A ₹	*B* ₹	*C* ₹
Balance of Capital Accounts (1)	1,20,000	80,000	1,00,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	24,000	20,000	25,000
Capital in profit sharing ratio taking B's Capital as base (2)	1,00,000	80,000	80,000
Excess of A's Capital and C's Capital 1-2) = (3)	20,000	nil	20,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	4,000		5,000

Capital in profit sharing ratio taking A's Capital as base (4)	20,000		16,000
Excess of C's Capital (3-4)=(5)	nil		4,000

Therefore, firstly ₹4,000 is to be paid to C, then A and C to be paid in proportion of 5:4 up to ₹ 36,000 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz A, B and C.

2. **Balance Sheet of M/s PQR & Co. as at 31st March, 2018**

Liabilities		₹	*Assets*		₹
Capitals:			Building		
P	6,41,000		(1,50,000 + 60,000)		2,10,000
Q	4,27,333		Plant & machinery (2,75,000+2,50,000)		5,25,000
R	2,13,667	12,82,000	Office equipment (50,000+46,000)		96,000
Sundry creditors (1,30,000+1,36,000)		2,66,000	Stock-in-trade (1,44,000+1,68,000)		3,12,000
Bank overdraft		80,000	Sundry debtors (1,60,000+2,00,000)	3,60,000	
			Less: Provision for doubtful debts (15,000 +30,000)	(45,000)	3,15,000
			Bank balance (40,000+1,00,000)		1,40,000
			Cash in hand		30,000*
		16,28,000			16,28,000

In the books of P & Co.
Partners' Capital Accounts

	Particulars	*P* ₹	*Q* ₹		*Particulars*	*P* ₹	*Q* ₹
To	Capital A/cs M/s PQR & Co.	5,53,000	2,81,000	By	Balance b/d	2,50,000	1,80,000
				By	Reserve (3:1)	45,000	15,000

* ₹ 20,000+ 10,000+ 1,78,000+ 27,667– 2,05,667= ₹ 30,000.

			By Profit on Realisation A/c (W.N.3)	2,58,000	86,000
	5,53,000	2,81,000		5,53,000	2,81,000

In the books of R & Co.

Partners' Capital Accounts

Particulars	Q ₹	R ₹	*Particulars* ₹	Q ₹	R ₹
To Capital A/cs – M/s PQR & Co.	4,12,000	2,16,000	By Balance b/d	2,20,000	1,20,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.4)	92,000	46,000
	4,12,000	2,16,000		4,12,000	2,16,000

Working Notes:

1. **Computation of purchase considerations**

	P & Co. ₹	*R & Co.* ₹
Assets:		
Goodwill	1,20,000	60,000
Building	1,50,000	60,000
Plant & machinery	2,75,000	2,50,000
Office equipment	50,000	46,000
Stock-in-trade	1,44,000	1,68,000
Sundry debtors	1,60,000	2,00,000
Bank balance	40,000	1,00,000
Cash in hand	20,000	10,000
Due from R & Co.	1,00,000	-
(A)	10,59,000	8,94,000
Liabilities:		
Creditors	1,30,000	1,36,000
Provision for doubtful debts	15,000	30,000
Due to P & Co.	-	1,00,000

Bank overdraft	80,000	-
(B)	2,25,000	2,66,000
Purchase consideration (A-B)	8,34,000	6,28,000

2. **Computation of Capital Adjustments**

	P	*Q*	*R*	*Total*
	₹	₹	₹	₹
Balance transferred from P & Co.	5,53,000	2,81,000		8,34,000
Balance transferred from R & Co.		4,12,000	2,16,000	6,28,000
	5,53,000	6,93,000	2,16,000	14,62,000
Less: Goodwill written off in the ratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	4,63,000	6,33,000	1,86,000	12,82,000
Proportionate capital (3:2:1)	6,41,000	4,27,333	2,13,667	12,82,000
Amount to be brought in (paid off)	1,78,000	(2,05,667)	27,667	

3. **In the books of P & Co.**

Realisation Account

	₹		₹
To Building	50,000	By Creditors	1,30,000
To Plant & machinery	1,60,000	By Bank overdraft	80,000
To Office equipment	50,000	By M/s PQR & Co. (purchase consideration) (W.N.1)	8,34,000
To Stock-in-trade	1,20,000		
To Sundry debtors	1,60,000		
To Bank balance	40,000		
To Cash in hand	20,000		
To Due from R & Co.	1,00,000		
To Partners' capital A/cs			
P 2,58,000			
Q 86,000	3,44,000		
	10,44,000		10,44,000

4. **In the books of R & Co.**

Realisation Account

		₹			₹
To	Building	60,000	By	Creditors	1,36,000
To	Plant & machinery	1,70,000	By	Due to P & Co.	1,00,000
To	Office equipment	46,000	By	M/s PQR & Co.	6,28,000
To	Stock-in-trade	1,40,000		(purchase consideration)	
To	Sundry debtors	2,00,000		(W.N.1)	
To	Bank balance	1,00,000			
To	Cash in hand	10,000			
To	Partners' capital A/cs				
	Q 92,000				
	R 46,000	1,38,000			
		8,64,000			8,64,000

Note:

The adjustments in the Capital Accounts of P, Q and R (both for Goodwill and the amounts paid to Q by P and R) can also be shown in their Capital Accounts in the Books of P & Co. and R & Co respectively. In such a case, the Capital Accounts of the partners carried to PQR & Co will be the same amounts as shown in the Balance Sheet of PQR & Co.

3. (a) Balance Sheet of the Firm as at 30.6.2018

Liabilities	₹	₹	*Assets*	₹	₹
Capital Accounts:			Machinery	3,60,000	
Ali balance as on 1.1.2018	2,80,800		*Less*: Depreciation		
Add: Profit for 6 months	28,320		@10% p.a. for 6 months	(18,000)	3,42,000
	3,09,120		Leasehold premises	81,600	
Less: Drawings for 6 months	(14,160)	2,94,960	*Less*: Written-off @ 5%		
Beta balance as on 1.1.2018	2,66,400		for 6 months	(4,080)	77,520
Add: Profit for 6 months	28,320		Stock		1,80,000
	2,94,720		Sundry Debtors		1,44,000
Less: Drawings for 6 months	(14,160)	2,80,560			
Sundry Creditors		1,20,000			
(1,44,000 – 24,000)					
Bank overdraft					
(84,000 – 36,000)		48,000			
		7,43,520			7,43,520

(b) **Realization Account**

	Particulars	₹		*Particulars*	₹
To	Machinery A/c	3,42,000	By	Sundry Creditors A/c	1,20,000
To	Leasehold Premises A/c	77,520	By	Bank Overdraft A/c	48,000
To	Stock A/c	1,80,000	By	Purchasing Company A/c	8,15,520
To	Sundry Debtors A/c	1,44,000		(W.N.1)	
To	Ali Capital A/c	1,20,000			
To	Beta Capital A/c	1,20,000			
		9,83,520			9,83,520

(c) **Partners' Capital Accounts**

Date	*Particulars*	*Ali*	*Beta*	*Date*	*Particulars*	*Ali*	*Beta*
		₹	₹			₹	₹
1.1.18	To Profit & Loss A/c	31,200	31,200	1.1.18	By Balance b/d	3,36,000	3,12,000
	To Drawings A/c	24,000	14,400				
29.6.18	Balance c/d	2,80,800	2,66,400				
		3,36,000	3,12,000			3,36,000	3,12,000
30.6.18	To Drawings A/c	14,160	14,160	30.6.18	By Balance b/d	2,80,800	2,66,400
	To Shares in Purchasing Company A/c	4,14,960	4,00,560	30.6.18	By Profit & Loss Appropriation A/c	28,320	28,320
					By Realization A/c	1,20,000	1,20,000
		4,29,120	4,14,720			4,29,120	4,14,720

Working Notes:

(1) Ascertainment of purchase consideration

	₹	₹
Assets:		
Stock		1,80,000
Sundry Debtors		1,44,000
Machinery less depreciation		3,42,000
Leasehold premises less written off		77,520
		7,43,520

Less: Liabilities:		
Sundry Creditors	1,20,000	
Bank overdraft	48,000	(1,68,000)
Closing Net Assets		5,75,520
Add: Goodwill		2,40,000
Purchase Consideration		8,15,520

(2) Ascertainment of profit for the 6 month ended 30th June, 2018

	₹	₹
Closing Net Assets		5,75,520
Less: Opening Combined Capital		
Ali – (3,36,000- 31,200-24,000)	2,80,800	
Beta – (3,12,000-31,200-14,400)	2,66,400	5,47,200
Profit after adjustment of Drawings		28,320
Add: Combined drawings during the 6 month (equal to profit)		28,320
		56,640
Profit for 6 months		

4. **"Designated partner"** means any partner designated as such pursuant to section 7 of the Limited Liability Partnerships (LLPs) Act; 2008. As per section 7 of the LLP Act, every limited Liability Partnership shall have at least 2 designated Partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of Limited Liability Partnership in which all the partners are bodies corporate or in which one or more partners are Individuals and bodies corporate, at least 2 individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners

"Liabilities of designated partners"

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(a) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and;

(b) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

5. Journal Entries in the books of JKS Ltd

			₹	₹
15.03.2018	Bank A/c	Dr.	1,08,000	
to 31.3.18	Employee compensation expense A/c	Dr.	72,000	
	To Equity share capital A/c			36,000
	To Securities premium A/c			1,44,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.18	Profit and Loss A/c	Dr.	72,000	
	To Employee compensation expenses A/c			72,000
	(Being transfer of employee compensation expenses transfer to Profit and Loss Account)			

Working Notes:

1. No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st January 2018;
2. Market Price = ₹ 50 per share and stock option price = ₹ 30, Hence, the difference ₹ 50 – ₹ 30 = ₹ 20 per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 3,600 shares.

6. Journal Entries in the books of Pee Limited

	Particulars		*Dr.*	*Cr.*
(i)	Bank Account	Dr.	25,00,000	
	Profit and Loss Account	Dr.	5,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share capital account	Dr.	4,80,000	
	Premium payable on buy back Account	Dr.	24,00,000	
	To Equity shares buy back Account			28,80,000
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	24,00,000	
	To Premium payable on buy back Account			24,00,000

	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue Reserve Account	Dr.	1,80,000	
	To Capital Redemption Reserve Account			1,80,000
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000)			
(v)	Equity shares buy-back Account	Dr.	28,80,000	
	To Bank Account			28,80,000
	(Being the payment made on buy back)			

Balance Sheet of Pee Limited as on 1st April, 2017

(After buy back of shares)

Particulars	*Note No*	*(₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		30,20,000
Total		1,06,20,000

Notes to Accounts

			₹
1	**Share Capital**		
	Authorised capital:		30,00,000
	Issued and subscribed capital:		
	1,92,000 Equity shares of ₹ 10 each fully paid up	1,92,0000	
	3,000 10% Preference shares of ₹ 100 each fully paid up	3,00,000	22,20,000
	Reconciliation of share capital		
	Opening no. of shares	2,40,000	

	Buy-back of shares during the year		48,000	1,92,000
	During the year the company has buy back of 48,000 shares			
2	**Reserves and Surplus**			
	Capital reserve		10,00,000	
	Capital redemption reserve		1,80,000	
	Securities Premium	27,00,000		
	Less: Premium payable on buy back of shares	24,00,000	3,00,000	
	Revenue reserve	25,00,000		
	Less: Transfer to Capital redemption reserve	1,80,000	23,20,000	
	Profit and loss A/c	35,00,000		
	Less: Loss on investment	5,00,000	30,00,000	68,00,000

7. Spices Ltd.

Balance Sheet as on 01.04.2018

Particulars	Note No.	Figures as at the end of current reporting period
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,10,000
(b) Reserves and Surplus	2	91,000
(2) Non-Current Liabilities		
(a) Long-term borrowings - Unsecured Loans		28,000
(3) Current Liabilities		
(a) Short-term borrowing		19,000
Total		2,48,000
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		72,000
(2) Current assets		
(a) Cash and cash equivalents		98,000
(b) Other current assets		78,000
Total		2,48,000

Notes to Accounts

			₹
1	**Share Capital**		
	11,000 Equity Shares of ₹ 10 each		1,10,000
	(Out of these shares, 2,000 shares issued to debentureholders who opted for conversion into Equity shares)		
2	**Reserve and Surplus**		
	General Reserve	38,000	
	Add: Debenture Redemption Reserve transfer	35,000	
		73,000	
	Add: Profit on sale of investments	22,000	
		95,000	
	Less: Premium on redemption of debentures (1,200 x ₹ 5)	(6,000)	89,000
	Securities Premium Account (2,000 x ₹ 1)		2,000
			91,000

Working Notes:

(i) Calculation of number of shares to be allotted ₹

Total number of debentures	1,200
Less : Number of debentures not opting for conversion	(200)
	1,000
40% of 1,000	400
Redemption value of 400 debentures (400 x ₹ 55)	₹ 22,000

Number of Equity Shares to be allotted 22,000/11 = 2,000 shares of ₹ 10 each.

(ii) Calculation of cash to be paid ₹

Number of debentures	1,200
Less: Number of debentures to be converted into equity shares	(400)
	800

Redemption value of 800 debentures (800 × ₹ 55) ₹ 44,000

(iii) Cash and Bank Balance ₹

Balance before redemption	86,000
Add : Proceeds of investments sold	56,000
	1,42,000

Less : Cash paid to debenture holders	(44,000)
	98,000

8. (i) Computation of total liability of underwriters in shares

	(In shares)			
	Amit	Sumit	lalit	*Total*
Gross liability	1,20,000	50,000	30,000	2,00,000
Less: Marked applications (excluding firm underwriting)	(80,000)	(35,000)	(24,800)	(1,39,800)
	40,000	15,000	5,200	60,200
Less: Unmarked applications in the ratio of gross liabilities of 12:5:3 (excluding firm underwriting)	(15,000)	(6,250)	(3,750)	(25,000)
	25,000	8,750	1,450	35,200
Less : Firm underwriting	(10,000)	(6,000)	(4,000)	(20,000)
	15,000	2,750	(2,550)	15,200
Less: Surplus of Lalit adjusted by Amit and Sumit in 12:5	(1,800)	(750)	2,550	____
Net liability	13,200	2,000	-	15,200
Add: Firm underwriting	10,000	6,000	4,000	20,000
Total liability	23,200	8,000	4,000	35,200

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

	Amit	*Sumit*	*Lalit*	*Total*
Total Liability in shares	23,200	8,000	4,000	35,200
Amount receivable @ ₹ 30 from underwriter (in ₹)	6,96,000	2,40,000	1,20,000	10,56,000
Less: Underwriting Commission payable @ 5% of ₹ 30 (in ₹)	(1,80,000)	(75,000)	(45,000)	(3,00,000)
Net amount receivable (in ₹)	5,16,000	1,65,000	75,000	7,56,000

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

			₹	₹
1.	Amit	Dr.	6,96,000	
	Sumit	Dr.	2,40,000	
	Lalit	Dr.	1,20,000	

	To Share Capital A/c			3,52,000
	To Securities Premium A/c			7,04,000
	(Being allotment of shares to underwriters)			
2.	Underwriting commission A/c	Dr.	3,00,000	
	To Amit			1,80,000
	To Sumit			75,000
	To Lalit			45,000
	(Being amount of underwriting commission payable)			
3.	Bank A/c	Dr.	7,56,000	
	To Amit			5,16,000
	To Sumit			1,65,000
	To Lalit			75,000
	(Being net amount received by underwriters for shares allotted less underwriting commission)			

9. (a) In the Books of Beta Ltd.

Realisation Account

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables	2,24,000
		By Alex Ltd. (Purchase Consideration)	14,84,000
To Equity Shareholders (Profit on Realisation)	1,40,000		
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

(b) In the Books of Alex Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	14,84,000	
To Liquidators of Beta Ltd. Account			14,84,000
(Being business of Beta Ltd. taken over)			
Goodwill Account	Dr.	1,40,000	
Building Account	Dr.	4,20,000	
Machinery Account	Dr.	4,48,000	
Inventory Account	Dr.	4,41,000	
Trade receivables Account	Dr.	2,80,000	
Bank Account	Dr.	56,000	
To Retirement Gratuity Fund Account			56,000
To Trade payables Account			2,24,000
To Provision for Doubtful Debts Account			21,000
To Business Purchase A/c			14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Beta Ltd. A/c	Dr.	14,84,000	

To 8% Preference Share Capital A/c		3,08,000
To Equity Share Capital A/c		11,20,000
To Securities Premium A/c		56,000
(Being Purchase Consideration satisfied as above).		

(c) Balance Sheet of Alex Ltd. (after absorption)

as at 31st March, 2017

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	45,08,000
	B	Reserves and Surplus	2	2,52,000
2		**Non-current liabilities**		
	A	Long-term provisions		1,96,000
3		**Current liabilities**		
	A	Trade Payables		5,88,000
	B	Short term provision		21,000
		Total		**55,65,000**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	3	31,08,000
		Intangible assets		2,80,000
2		**Current assets**		
	A	Inventories		11,41,000
	B	Trade receivables		8,40,000
	C	Cash and cash equivalents		1,96,000
		Total		**55,65,000**

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000

	Preference share capital	
	5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000
	Total	**45,08,000**
2	**Reserves and Surplus**	
	Securities Premium	56,000
	General Reserve	1,96,000
	Total	**2,52,000**
3	**Tangible assets**	
	Buildings	12,60,000
	Machinery	18,48,000
	Total	**31,08,000**

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000
Trade receivables	2,59,000
Cash at Bank	56,000
Less: Liabilities:	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
Add: 10% Premium	28,000
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

10. Journal Entries in the Books of Z Ltd.

			Dr.	Cr.
			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures outstanding A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000

	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			

(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			10,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Discount on issue of Debentures A/c			1,00,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	(capital commitment penalty paid)	
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share	
To Bank (reconstruction expenses)	15,000	Capital A/c	25,00,000

To	Goodwill	10,00,000	By	9% Pref. Share Capital A/c	10,00,000
To	Patent	5,00,000	By	Mr. Y (Settlement)	5,78,000
To	P & L A/c	14,60,000	By	Mr. Z (Settlement)	3,82,000
To	Discount on issue of debentures	1,00,000	By	Trade Payables A/c	1,70,000
To	P & M	6,50,000	By	Director's loan	60,000
To	Furniture and Fixtures	1,00,000	By	Bank	1,00,000
To	Trade investment	50,000	By	Provision for tax	25,000
To	Inventory	2,50,000	By	Land and Building	2,00,000
To	Trade Receivables	1,00,000			
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			50,15,000

11. Statement of liabilities of B list contributories

Share-holders	*No. of shares transferred*	*Maximum liability (upto ₹ 2 per share)*	*Division of Liability as on 1.5. 2017*	*1.10. 2017*	*1.11. 2017*	*1.2. 2018*	*Total*
		₹	₹	₹	₹	₹	₹
P	1,500	3,000	1,500	–	–	–	1,500
Q	1,000	2,000	1,000	555	–	–	1,555
R	500	1,000	500	278	188	–	966
S	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	*Cumulative liability*	*Increase in liability*	*Ratio of no. of shares held by the members*
1.5.2017	3,300	–	30 : 20 : 10 : 6
1.10.2017	4,300	1,000	20 : 10 : 6
1.11.2017	4,600	300	10 : 6
1.2.2018	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of ₹ 600, therefore amount payable by S is restricted to ₹ 21 only, on 1.2.2018.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2017 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

12. In the books of Bharat Insurance Co. Ltd.

Journal Entries

Date	*Particulars*		*(₹ in crores)*	
			Dr.	*Cr.*
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	28	
	Unexpired Risk Reserve (Marine) A/c	Dr.	21	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	6	
	To Fire Revenue Account			28
	To Marine Revenue Account			21
	To Miscellaneous Revenue Account			6
	(Being unexpired risk reserve brought forward from last year)			
31.03.2017	Marine Revenue A/c	Dr.	23	
	To Unexpired Risk Reserve A/c			23
	(Being closing reserve for unexpired risk created at 100% of net premium income amounting to ₹23 crores i.e.22+8.5-7.5)			
	Fire Revenue A/c	Dr.	23.95	
	To Unexpired Risk Reserve A/c			23.95
	(Being closing reserve for unexpired risk created at 50% of net premium income of ₹ 47.90 crores i.e.46+7.2-5.3)			
	Miscellaneous Revenue A/c	Dr.	5	
	To Unexpired Risk Reserve A/c			5
	(Being closing reserve for unexpired risk created at 50% net premium income of ₹10 crores i.e. 13+5-8)			

Unexpired Risk Reserve Account

Date		*Particulars*	*Marine*	*Fire (₹)*	*Misc. (₹)*	*Date*		*Particulars*	*Marine (₹)*	*Fire (₹)*	*Misc. (₹)*
1.4.2016	To	Revenue A/c	21	28	6	1.4.2016	By	Balance b/d	21	28	6
31.3.2017	To	Balance c/d	23	23.95	5	31.3.2017	By	Revenue A/c	23	23.95	5
			44	51.95	11				44	51.95	11

Working Note:

Premium from other insurance companies in respect of risk undertaken:

Received during the year	11.5	9.2	5.5
Less: Receivable – 01.04.16	(7.0)	(3.0)	(1.5)
Add: Receivable – 31.03.17	4.0	1.0	1.0
	8.5	*7.2*	*5.0*

13. (a) Calculation of Provisions and Contingencies

(i) **Provision on Non-Performing Assets**

			₹in lakhs
Particulars	*Amount*	*% of Provision*	*Provision*
Standard Assets	4,100	0.4	16.40
Sub-standard Assets	380	15	57
Doubtful Assets not covered by security	155	100	155
Doubtful Assets covered by security:			
For 1 year	10	25	2.50
More than 1 year, but less than 2 years	18	40	7.20
More than 2 years, but less than 3 years	35	40	14
More than 3 years	22	100	22
Loss Assets	50	100	50
	4,770		324.10

(ii) Calculation of Provision for tax = 35% of [Total Income – Total Expenditure (excluding tax)]

= 35% of [(1,840 +15) – (1,136+105+324.10)] = ₹ 101.47 lakhs

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

= 324.10 + 101.47 = ₹ 425.57 lakhs

(b) **Supreme Bank Limited**

Profit and Loss Account for the year ended 31st March, 2018

	Particulars	*Schedule No.*	*₹ in lakhs*
I	**Income**		
	Interest Earned	13	1,840
	Other Income	14	15
			1,855
II	**Expenditures**		
	Interest Expended		1,136
	Operating Expenses	16	1,05
	Provisions & Contingencies		425.57
			1,666.57
III	**Profit/Loss**		
	Net Profit/Loss for the year		188.43
	Profit/Loss brought forward		65
			253.43
IV	**Appropriations**		
	Transfer to Statutory Reserve @ 25% of 188.43		47.11
	Transfer to Other Reserves		-
	Balance carried over to Balance Sheet		206.32
			253.43
	Schedule 13 – Interest earned		
I	Interest & Discount (1,835 – 3)		1,832
II	Interest on Investments		8
			1,840
	Schedule 14- other income		
	Commission, exchange and brokerage		12
	Profit on sale of investments		1
	Rent received		2
			15

Schedule 16- Operating Expenses	
Printing & stationery	18
Repair & maintenance	2
Payment to and provision for employees (salaries, bonus etc.)	80
Other Operating Expenses	5
	105

14. **Departmental Trading and Profit and Loss Account of M/s Division**

For the year ended 31st December, 2017

	Deptt. A	*Deptt. B*		*Deptt. A*	*Deptt. B*
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the gross profit rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%

2. Stock of department B will be adjusted according to the gross profit rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

15. **Books of Branch**

Journal Entries

			Amounts ₹	
			Dr.	*Cr.*
(i)	Head Office Account	Dr.	5,000	
	To Salaries Account			5,000
	(Being rectification of salary paid on behalf of Head Office)			
(ii)	No entry in Branch Books is required.			
(iii)	Depreciation A/c	Dr.	15,000	
	To Head Office Account			15,000
	(Being depreciation of assets accounted for)			
(iv)	Expenses Account	Dr.	75,000	
	To Head Office Account			75,000
	(Being allocated expenses of Head Office recorded)			
(v)	Head Office Account	Dr.	60,000	
	To Debtors Account			60,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(vi)	Goods –in- transit Account	Dr.	50,000	
	To Head Office Account			50,000
	(Being goods sent by Head Office still in-transit)			
(vii)	Head Office Account	Dr.	10,000	
	To expenses Account			10,000
	(Being expenditure incurred, wrongly recorded in books)			
(vii)	Purchases account A/c	Dr.	16,000	
	To Head Office Account			16,000
	(Being purchases booked)			

16. **(a)** The Framework for Recognition and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss. These bases are: (i)Historical Cost; (ii)Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.

A brief explanation of each measurement basis is as follows:

1. <u>Historical Cost</u>: Historical cost means acquisition price. According to this, assets

are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.

2. Current Cost: Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

3. Realizable (Settlement) Value: As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in *an orderly disposal*. Liabilities are carried at their settlement values; i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

4. Present Value: Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

(b)

Particulars	*Financial Capital Maintenance at Historical Cost (₹)*
Closing equity (₹ 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ₹ 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

Thus, in order to maintain the capital intact, Mohan can withdraw ₹ 6,00,000 as the maximum amount.

17. (a) As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹ 20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹ 20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹ 19,00,000 should be made (20,00,000 x 95%) in the books for the year ended 31st March, 2017.

(b) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

(ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

18. (a) As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 15 lakhs and balance in deferred income is ₹ 10.50 lakhs, ₹ 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2014-15 then, AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 15 lakhs. The increased cost of ₹ 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be (56+15)/7 years = ₹ 10.14 lakhs presuming the depreciation is charged on SLM.

(b) According to AS 16 "Borrowing Costs", borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Total interest on debentures for the financial year ended 31.03.2017 was 1,87,500 (₹ 25 lakh x 10% x 9/12)

Total interest earned on FD was 24,000

Thus, eligible borrowing cost

= ₹ 1,87,500 – ₹ 24,000

= ₹ 1,63,500

Sr. No.	*Particulars*	*Nature of assets*	*Interest to be Capitalized (₹)*	*Interest to be charged to Profit & Loss Account (₹)*
i	Construction of factory building	Qualifying Asset*	1,63,500x8/25 = ₹ 52,320	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	1,63,500 x 10/25 = ₹ 65,400
iii	Working Capital	Not a Qualifying Asset	NIL	1,63,500 x7/25 = ₹ 45,780
	Total		₹ 52,320	₹ 1,11,680

*A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

19. (a) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is ₹ 10, 00,000 and the net present value of minimum lease payments is ₹ 10,01,497 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at fair value of ₹ 10,00,000.

Calculation of finance charges for each year

Year	*Finance charge (₹)*	*Payment (₹)*	*Reduction in outstanding liability (₹)*	*Outstanding liability (₹)*
1st year beginning	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366*

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor ₹ 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	₹ 9,79 ,405
Present value of guaranteed residual value ₹ 40,000 x (0.5523)	₹ 22,092
	₹ 10,01,497

(b) Computation of Basic Earnings per Share

		Year 2015-16 (₹)	*Year 2016-17 (₹)*
(i)	EPS for the year 2015-16 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year ₹ 35,00,000/ 15,00,000 shares	2.33	

** The difference between this figure and guaranteed residual value is due to rounding off.*

(ii)	EPS for the year 2015-16 restated for the right issue ₹ 35,00,000/15,00,0000 shares x 1.08	2.16	
(iii)	EPS for the year 2016-17 (including effect of right issue) ₹ 45,00,000/[(15,00,000 x 1.08x4/12)+(20,00,000 x 8/12)]		2.40

Working Notes:

1. Computation of theoretical ex-rights fair value per share =

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights+total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

[(₹ 35 x15,00,000) + (₹ 25 x 5,00,000)] / (15,00,000 + 5,00,000) = ₹ 32.5

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

= ₹ *35 /32.50* = 1.08 (approx.)

20. (a) Desire Limited amortised ₹ 20,00,000 per annum for the first two years i.e. ₹ 40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	*Net cash flows ₹*	*Amortization Ratio*	*Amortization Amount ₹*
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.

(b) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

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

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

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

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

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

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