

## PAPER – 5: ADVANCED ACCOUNTING

Question No.1 is compulsory.

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

Working notes should form part of the respective answers.

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

### Question 1

- (a) TQ Cycles Ltd. is in the manufacturing of bicycles, a labour intensive manufacturing sector. In April 2022, the Government enhanced the minimum wages payable to workers with retrospective effect from the 1<sup>st</sup> January, 2022. Due to this legislative change, the additional wages for the period from January 2022 to March 2022 amounted to ₹ 30 lakhs. The management asked the Finance manager to charge ₹ 30 lakhs as prior period item while finalizing financial statements for the year 2022-23. Further, the Finance manager is of the view that this amount being abnormal should be disclosed as extra-ordinary item in the Profit and loss account for the financial year 2021-22.

Discuss with reference to applicable Accounting Standards.

- (b) NAT, a listed entity, as on 1<sup>st</sup> April, 2021 had the following capital structure:

	₹
10,00,000 Equity Shares having face value of ₹ 1 each	10,00,000
10,00,000 8% Preference Shares having face value of ₹ 10 each	1,00,00,000

During the year 2021-2022, the company had profit after tax of ₹ 90,00,000

On 1<sup>st</sup> January, 2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31<sup>st</sup> December, 2021.

On 1<sup>st</sup> January, 2022, NAT issued 2,00,000 equity shares of ₹ 1 each at their full market price of ₹ 7.60 per share.

NAT's shares were trading at ₹ 8.05 per share on 31<sup>st</sup> March, 2022.

Further it has been provided that the basic earnings per share for the year ended 31<sup>st</sup> March, 2021 was previously reported at ₹ 62.30.

You are required to:

- Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31<sup>st</sup> March, 2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.
- Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share?

- (c) Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31<sup>st</sup> March, 2022 and needs your advice on the following issues in line with the provisions of AS-29:
- On 1<sup>st</sup> April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31<sup>st</sup> March, 2022, the company does not provide any provision for replacement of lining of the furnace.
  - A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalization of the case. There are 70% chances that the penalty may not be levied.
- (d) Grace Ltd., a firm of contractors provided the following information in respect of a contract for the year ended on 31<sup>st</sup> March, 2022:

Particulars	(₹ in '000)
Fixed Price Contract with an escalation clause	35,000
Work Certified	17,500
Work not Certified (includes ₹ 26,25,000 for materials issued, out of which material lying unused at the end of the period is ₹ 1,40,000)	3,815
Estimated further cost to completion	
Progress Payment Received	17,325
Payment to be Received	14,000
Escalation in cost is by 8% and accordingly the contract price is increased by 8%	4,900

From the above information, you are required to:

- Compute the contract revenue to be recognized.
- Calculate Profit /Loss for the year ended 31<sup>st</sup> March, 2022 and additional provision for loss to be made, if any, for the year ended 31<sup>st</sup> March, 2022.

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

### Answer

- (a) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances which though related to prior periods, are determined in the current period.

It is given that revision of wages took place in April, 2022 with retrospective effect from 1<sup>st</sup> January, 2022. Therefore, wages payable for the period from 1.01.2022 to 31.3.2022 cannot be taken as an error or omission in the preparation of financial statements and hence this expenditure cannot be taken as a prior period item. The full amount of wages payable to workers will be treated as an expense of current year and it will be charged to profit & loss account for the year 2022-23 as normal expenses.

It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Such an expense does not qualify as an extraordinary item. Therefore, finance manager is incorrect in treating increase as extraordinary item. However, as per AS 5, when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Therefore, additional wages liability of ₹ 30 lakhs should be disclosed separately in the financial statements of TQ Cycles Ltd. for the year ended 31<sup>st</sup> March, 2023.

- (b) (i) Calculation of Basic Earnings per share for the year ended 31<sup>st</sup> March, 2022 including the comparative figure:
- (a) Earnings for the year ended 31<sup>st</sup> March, 2021 = EPS x Number of shares outstanding during 2020-2021
- $$= ₹ 62.30 \times 10,00,000 \text{ equity shares}$$
- $$= ₹ 6,23,00,000$$
- (b) Adjusted Earnings per share after taking into consideration bonus issue
- Adjusted Basic EPS = Earnings for the year 2020-2021 / Total outstanding shares + Bonus issue
- $$= ₹ 6,23,00,000 / (10,00,000 + 5,00,000)$$
- $$= ₹ 6,23,00,000 / 15,00,000$$
- $$= ₹ 41.53 \text{ per share}$$
- (c) Basic EPS for the year 2021-2022
- Basic EPS = Total Earnings – Preference Shares Dividend / (Total shares outstanding at the beginning + Bonus issue + weighted average of the shares issued in January, 2022)
- $$= (₹ 90,00,000 - ₹ (1,00,00,000 \times 8\%) / (10,00,000 + 5,00,000 + (2,00,000 \times 3/12))$$
- $$= ₹ 82,00,000 / 15,50,000 \text{ shares}$$
- $$= ₹ 5.29 \text{ per share}$$

- (ii) In case of a bonus issue, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2021, the earliest period reported.

However, the share issued at full market price does not carry any bonus element and usually results in a proportionate change in the resources available to the enterprise. Therefore, it is taken into consideration from the time it has been issued i.e. the time-weighting factor is considered based on the specific shares outstanding as a proportion of the total number of days in the period.

- (c) (i) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29. The cost of replacement of lining of furnace is not recognized as a provision because it is a future obligation. Even a legal requirement does not require the company to make a provision for the cost of replacement because there is no present obligation. Even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining.
- (ii) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not. Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 70% chances that the penalty may not be levied. Accordingly, Alloy Fabrication Ltd. should not make the provision for penalty. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

However, a provision should be made for remaining 40% fees of the lawyer amounting ₹ 2,00,000 in the financial statements of financial year 2021-2022.

**(d) Calculation of total estimated cost of construction**

		₹ in thousand
Cost of Contract incurred till date		
Work certified	17,500	
Work not certified (3,815 thousand – 140 thousand)	<u>3,675</u>	21,175
Add: Estimated future cost		<u>17,325</u>
Total estimated cost of construction		<u>38,500</u>
Contract Price (35,000 thousand x 1.08)		37,800

**Stage of completion**

Percentage of completion till date to total estimated cost of construction = [Cost of work completed till date / total estimated cost of the contract] x 100

$$= [\text{₹ } 21,175 \text{ thousand} / \text{₹ } 38,500 \text{ thousand}] \times 100 = 55\%$$

**Revenue to be recognized for the year ended 31<sup>st</sup> March, 2022**

Proportion of total contract value recognized as revenue = Contract price x percentage of completion = ₹ 37,800 thousand x 55% = ₹ 20,790 thousand

**Loss to be recognized for the year ended 31<sup>st</sup> March, 2022**

Loss for the year ended 31<sup>st</sup> March, 2022 = Cost incurred till date – Revenue to be recognized for the year ended 31<sup>st</sup> March, 2022

$$= \text{₹ } 21,175 \text{ thousand} - \text{₹ } 20,790 \text{ thousand} = \text{₹ } 385 \text{ thousand}$$

**Provision for loss to be made at the end of 31<sup>st</sup> March, 2022**

		₹ in thousand
Total estimated loss on the contract		
Total estimated cost of the contract	38,500	
Less: Total revised contract price	<u>(37,800)</u>	700
Less: Loss recognized for the year ended 31 <sup>st</sup> March, 2022		<u>(385)</u>
Provision for loss to be made at the end of 31 <sup>st</sup> March, 2022		<u>315</u>

**Question 2**

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31<sup>st</sup> March, 2022 are as under:

	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹10 each, fully paid up	30,00,000	24,00,000
Securities Premium Account	4,00,000	
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	
10% Debentures	20,00,000	
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	<u>1,00,000</u>	<u>3,40,000</u>
	<u>71,80,000</u>	<u>43,80,000</u>
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000

Long term advance to B Ltd.	2,20,000	
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	<u>3,00,000</u>	<u>3,00,000</u>
	71,80,000	43,80,000

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

- The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into ₹ 6 lakhs equity shares of ₹ 10 each.
- As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.
- 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
- A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability.
- Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.
- The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies. **(20 Marks)**

**Answer**

**Journal Entries in the books of Z Ltd.**

		₹	₹
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & Machinery A/c	Dr.	20,00,000	
Long term advance to B Ltd. A/c	Dr.	2,20,000	
Inventories A/c	Dr.	10,40,000	
Trade Receivables A/c	Dr.	8,20,000	

Cash and Bank A/c	Dr.	3,00,000	
Goodwill A/c	Dr.	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr.	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr.	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr.	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr.	21,00,000	
Plant & Machinery A/c	Dr.	7,60,000	
Inventories A/c	Dr.	7,00,000	
Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000
*Capital Reserve A/c	Dr.	1,00,000	
To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

**Note:**

- The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
- \*Alternatively, following set of entries may be given in place of the last entry given in the above solution:

Goodwill A/c	Dr.	50,000	
To Cash & Bank A/c (Liquidation expenses of A Ltd.)			50,000
Capital Reserve A/c	Dr.	30,000	
To Cash and Bank A/c (Liquidation expenses of B Ltd.)			30,000
Capital Reserve A/c	Dr.	70,000	
To Goodwill A/c			70,000

**Balance Sheet of Z Ltd. as at 31<sup>st</sup> March, 2022**

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
<b>(2) Non-Current Liabilities</b>		
(a) Long-term borrowings	3	20,00,000
(b) Long term provisions	4	1,00,000
<b>(3) Current Liabilities</b>		
(a) Short-term borrowings <sup>1</sup>	5	12,00,000
(b) Trade payables	6	4,40,000
(a) Other liability		2,00,000
Total		1,22,20,000
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) i. Property, plant and equipment	7	76,60,000

<sup>1</sup> Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.



ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) <b>Current assets</b>		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		1,22,20,000

**Notes to Accounts**

		(₹)	(₹)
1.	Share Capital		
	Authorized Share Capital		
	6,00,000 Equity shares of ₹ 10 each		<u>60,00,000</u>
	Issued: 4,14,000 Equity shares of ₹ 10 each (all these shares were Issued for consideration other than cash)		41,40,000
2.	Reserves and surplus		
	Securities Premium Account (4,14,000 shares × ₹ 10)		41,40,000
3.	Long-term borrowings		
	12% Debentures		20,00,000
4.	Long term Provisions		
	Retirement gratuity fund		1,00,000
5.	Short-term borrowings		
	Unsecured loans		
	A Ltd. 6,00,000		
	B Ltd. <u>8,20,000</u>	14,20,000	
	Less: Mutual	<u>(2,20,000)</u>	12,00,000
6.	Trade payables		
	A Ltd. 1,00,000		
	B Ltd. <u>3,40,000</u>		4,40,000

7.	Property, plant & equipment		
	Land and Building		
	A Ltd.	28,00,000	
	B Ltd.	<u>21,00,000</u>	49,00,000
	Plant and Machinery		
	A Ltd.	20,00,000	
	B Ltd.	<u>7,60,000</u>	<u>27,60,000</u>
			<u>76,60,000</u>
8.	Inventories		
	A Ltd.	10,40,000	
	B Ltd.	<u>7,00,000</u>	17,40,000
9	Trade receivables		
	A Ltd.	8,20,000	
	B Ltd.	<u>5,20,000</u>	13,40,000
10	Cash & cash equivalents		
	A Ltd.	3,00,000	
	B Ltd. [3,00,000-2,40,000(dividend)]	<u>60,000</u>	
		3,60,000	
	Less: Liquidation Expenses	<u>(80,000)</u>	2,80,000

**Working Note:****Calculation of amount of Purchase Consideration**

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	₹ 18	₹ 12
Purchase consideration	<u>54,00,000</u>	<u>28,80,000</u>
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	<u>2,70,000</u>	<u>1,44,000</u>
Face value of shares at ₹ 10	27,00,000	14,40,000
Premium of shares at ₹ 10	27,00,000	14,40,000

**Question 3**

- (a) White Ltd. acquired 2,250 shares of Black Ltd. on 1<sup>st</sup> October, 2020. The summarized balance sheets of both the companies as on 31<sup>st</sup> March, 2021 are given below:

	White Ltd. (₹)	Black Ltd. (₹)
<b>(I) Equity and Liabilities</b>		
<b>(1) Shareholder's fund</b>		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
<b>(2) Current Liabilities</b>		
Trade payables	1,15,000	75,000
Due to White Ltd.	-	30,000
<b>Total</b>	<b>9,75,000</b>	<b>5,25,000</b>
<b>(II) Assets:</b>		
<b>Non-current assets</b>		
Property, Plant and Equipment	5,80,000	3,51,000
<b>Investments</b>		
Shares in Black Ltd. (2,250 shares)	2,70,000	
<b>Current assets</b>		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	
Cash and Cash equivalents	39,000	54,000
<b>Total</b>	<b>9,75,000</b>	<b>5,25,000</b>

Other information:

- (i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30<sup>th</sup> March, 2021.
- (ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31<sup>st</sup> March, 2021.
- (iii) Profits during the year 2020-2021 were earned evenly.

- (iv) The balances of Reserve and Profit and Loss account as on 1<sup>st</sup> April, 2020 were as follows:

	Reserves	Profit and Loss A/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31<sup>st</sup> March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

- (b) (i) Write a short note on Non-performing assets of a banking company.  
(ii) Dee Bank provides you the following information relating to their two cash credit accounts:

	Account A ₹ In Lakhs	Account B ₹ In Lakhs
Sanctioned limit	4,500	3,200
Drawing power	4,200	2,500
Amount outstanding continuously from 01.01.2021 to 31.03.2021	3,600	2,000
Total Interest debited for the above period	288	315
Total credits for the above period	120	380

State with reason whether the above cash credit accounts are NPA or not?

(15 + 5 = 20 Marks)

### Answer

- (a) Consolidated Balance Sheet of White Ltd. and its Subsidiary Black Ltd.  
as at 31<sup>st</sup> March, 2021

Particulars	Note No.	(₹)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	6,50,000
(b) Reserves and Surplus	2	2,55,000
(2) Minority Interest	3	1,05,000
(3) Current Liabilities		
(a) Trade Payables	4	1,90,000
Total		12,00,000

<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Property, Plant and Equipment	5	9,31,000
<b>(2) Current assets</b>		
(i) Inventory	6	1,70,000
(ii) Cash & cash equivalent	7	99,000
<b>Total</b>		<b>12,00,000</b>

**Notes to Accounts**

			₹
1.	<b>Share capital</b>		
	6,500 equity shares of ₹ 100 each, fully paid up		<u>6,50,000</u>
	Total		<u>6,50,000</u>
2.	<b>Reserves and Surplus</b>		
	General Reserves		60,000
	Profit and Loss Account	1,50,000	
	Add: 75% share of Black Ltd.'s post-acquisition profits (W.N.1)	<u>37,500</u>	1,87,500
	Capital reserve (W.N. 5)		<u>7,500</u>
	Total		<u>2,55,000</u>
3.	<b>Minority interest in Black Ltd. (WN 4)</b>		1,05,000
4.	<b>Trade payables</b>		
	White Ltd.	1,15,000	
	Black Ltd.	<u>75,000</u>	<u>1,90,000</u>
5.	<b>Property, plant and equipment</b>		
	White Ltd.	5,80,000	
	Black Ltd.	<u>3,51,000</u>	9,31,000
6	<b>Inventory</b>		
	White Ltd.	50,000	
	Black Ltd.	<u>1,20,000</u>	1,70,000
7	<b>Cash &amp; cash equivalent</b>		
	White Ltd.	39,000	
	Black Ltd.	54,000	
	Cash in transit	<u>6,000</u>	<u>99,000</u>

**Working Notes:**

<b>1. Post-acquisition profits of Black Ltd.</b>	₹
profits earned during the year = ₹ 90,000 + ₹10,000	<u>1,00,000</u>
Pre-acquisition profits (1.4.20 to 30.9.20)	50,000
Post-acquisition profits (1.10.20 to 31.3.21)	<u>50,000</u>
White Ltd.'s share 75% of 50,000	37,500
Minority Interest 25% of 50,000	<u>12,500</u>
<b>2. Pre-acquisition profits and reserves of Black Ltd.</b>	
Reserves as on 1.4.2020	30,000
Profit and Loss Account	<u>40,000</u>
[10,000 (loss as on 1.4.20) + 50,000 (6 month Adjusted pre-acquisition profits)]	
	<u>70,000</u>
White Ltd.'s = (75%) × 70,000	52,500
Minority Interest = (25%) × 70,000	17,500
<b>3. Post-acquisition reserves of Black Ltd.</b>	
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 30,000 – 30,000)	<u>nil</u>
<b>4. Minority Interest</b>	
Paid-up value of (3,000 – 2,250) = 750 shares held by outsiders i.e. 750 × ₹ 100	75,000
Add: 25% share of pre-acquisition reserves & Profit	17,500
25% share of post-acquisition profit	<u>12,500</u>
	<u>1,05,000</u>
<b>5. Capital Reserve</b>	
Price paid by White Ltd. for 2,250 shares (A)	2,70,000
Intrinsic value of the shares-	
Paid-up value of 2,250 shares held by White Ltd. i.e. 2,250 × ₹ 100	2,25,000
Add 75% share of pre-acquisition reserves & profit (70,000 × 75%)	<u>52,500 (B)</u>
Capital reserve (A – B)	<u>2,77,500</u>
	7,500

- (b) (i) Performing assets are also called as Standard Assets. A non-performing asset is a loan or advance for which the principal or interest payment remains overdue for a period of 90 days. The assets other than performing assets are called Non-Performing Assets (NPA). NPAs are classified into three groups: (i) sub-standard Assets (ii) doubtful assets & (iii) Loss Assets.

(i) **Sub-standard Assets** –A Sub-standard asset is one which has been classified as an NPA for a period not exceeding 12 months.

(ii) **Doubtful Assets** - An asset would be classified as doubtful if it has remained in the substandard category for a period of at least 12 months.

(iii) **Loss Assets** - A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspectors but the amount has not been written off, wholly or partly. In other words, such an asset is considered uncollectible or if collected of such little value that its continuance as a bank asset is not warranted although there may be some salvage or recovery value.

Income from non-performing assets can only be accounted for as and when it is actually received.

(ii)

	Account A ₹ in lakhs	Account B ₹ in lakhs
Sanctioned limit	4,500	3,200
Drawing power	4,200	2,500
Amount outstanding continuously from 1.01.2021 to 31.03.2021	3,600	2,000
Total interest debited	288	315
Total credits	120	380
Is credit in the account is sufficient to cover the interest debited during the period? or	No	Yes
Is amount 'overdue' for a continuous period of 90 days?	Yes	No
	NPA	Not NPA

#### Question 4

- (a) *Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7:7: 4 as a wholesale stationer running business under the name "AVS Traders". On 31<sup>st</sup> March, 2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31<sup>st</sup> March, 2021 when their Balance sheet stood as under:*

**Balance Sheet as at 31<sup>st</sup> March, 2021**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital accounts:		Building	1,90,000
Ajay      1,80,000		Inventory	1,30,000
Vijay <u>1,80,000</u>	3,60,000	Investments	50,000
General Reserve	36,000	Trade Debtors	70,000
Trade Creditors	80,000	Cash & Bank	26,000
Bills payables	30,000	Sanjay's Capital (overdrawn)	40,000
	<u>5,06,000</u>		<u>5,06,000</u>

**Additional Information:**

- (i) Following frauds were committed by Sanjay:
- (1) Investments costing ₹8,000 were sold by Sanjay at ₹11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.
  - (2) A cheque for ₹7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.
- (ii) A trade creditor agreed to take over investments of the book value of ₹9,000 at ₹13,000. The rest of the trade creditors were paid off at a discount of 10%.
- (iii) Other assets were realized as follows:

Inventory	₹1,20,000
Building	110% of book value
Investments	The rest of the investments were sold at a profit of ₹7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%

- (iv) The Bills payables were settled at a discount of, ₹500.
- (v) The expenses of dissolution amounted to ₹8,060.
- (vi) It was found out, that realisation from Sanjay's private assets would be ₹7,000.

You are required to prepare

- (1) Realisation Account
- (2) Cash & Bank Account
- (3) Partners' Capital Accounts.

(All workings should form part of your answer)

- (b) Explain the nature of a Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership and what are their liabilities? **(15 + 5 = 20 Marks)**



**Answer****(a) Realization Account**

Particulars	₹	Particulars	₹
To Building	1,90,000	By Trade creditors	80,000
To Inventory	1,30,000	By Bills payable	30,000
To Investment	50,000	By Cash	
To Trade Debtors	70,000	Building	2,09,000
To Cash - Trade creditors paid (W.N.1)	60,300	Inventory	1,20,000
To Cash-expenses	8,060	Investments (W.N.2)	40,000
To Cash-bills payable (30,000-500)	29,500	Trade Debtors (W.N. 3)	<u>56,700</u>
To Partners' Capital A/cs			4,25,700
Ajay	6,160	By Sanjay's Capital A/c (Trade Debtors-unrecorded)	7,000
Vijay	6,160	By Sanjay's Capital A/c (Investments-unrecorded)	11,000
Sanjay	<u>3,520</u>		
	<u>15,840</u>		
	<u>5,53,700</u>		<u>5,53,700</u>

**Cash and Bank Account**

Particulars		Amount ₹	Particulars	Amount ₹
To Balance b/d		26,000	By Realization A/c- Trade creditors paid	60,300
To Realization A/c- assets realized			By Realization A/c-bills payable	29,500
Building	2,09,000		By Realization A/c-expenses	8,060
Inventory	1,20,000		By Capital accounts:	
Investments (W.N.2)	40,000		Ajay	1,80,420
Trade Debtors (W.N. 3)	<u>56,700</u>	4,25,700	Vijay	1,80,420

To Sanjay's capital A/c		<u>7,000</u>	
		<u>4,58,700</u>	<u>4,58,700</u>

## Partners' Capital Accounts

Particulars	Ajay	Vijay	Sanjay	Particulars	Ajay	Vijay	Sanjay
	₹	₹	₹		₹	₹	₹
To Balance b/d			40,000	By Balance b/d	1,80,000	1,80,000	-
To Trade Debtors-misappropriation			7,000	By General reserve	14,000	14,000	8,000
To Investment-misappropriation			11,000	By Realization profit	6,160	6,160	3,520
To Sanjay's capital A/c (W.N. 4)	19,740	19,740		By Cash A/c			7,000
To Cash A/c	1,80,420	1,80,420		By Ajay's capital A/c			19,740
				By Vijay's capital A/c			<u>19,740</u>
	<u>2,00,160</u>	<u>2,00,160</u>	<u>58,000</u>		<u>2,00,160</u>	<u>2,00,160</u>	<u>58,000</u>

## Working Notes:

## 1. Amount paid to Trade creditors

	₹
Book value	80,000
Less: Creditors taking over investments	<u>(13,000)</u>
	67,000
Less: Discount @ 10%	<u>(6,700)</u>
	<u>60,300</u>

## 2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by Sanjay	<u>(8,000)</u>
	42,000

Less: Taken over by a trade creditor	<u>(9,000)</u>
	33,000
Add: Profit on sale of investments	<u>7,000</u>
	<u>40,000</u>

### 3. Amount received from Trade debtors

	₹
Book value	70,000
Less: Unrecorded receipt	<u>(7,000)</u>
	63,000
Less: Discount @ 10%	<u>(6,300)</u>
	<u>56,700</u>

### 4. Deficiency of Sanjay

	₹
Balance of capital as on 31 <sup>st</sup> March, 2021	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	<u>11,000</u>
	58,000
Less: Realization Profit	(3,520)
General reserve	(8,000)
Contribution from private assets	<u>(7,000)</u>
Net deficiency of capital	<u>39,480</u>

This deficiency of ₹ 39,480 in Sanjay's capital account will be shared by other partners Ajay and Vijay in their capital ratio of 1:1

Accordingly,

Ajay's share of deficiency =  $[39,480/2] = ₹ 19,740$

Vijay's share of deficiency =  $[39,480/2] = ₹ 19,740$

- (b) **Nature of Limited Liability Partnership:** A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights, or liabilities of the limited liability partnership.

**Designated partners:** Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India. In case of a 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 two 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 the LLP Act, unless expressly provided otherwise in this Act, a designated partner should 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.

#### Question 5

- (a) Quick Ltd. has the following capital structure as on 31<sup>st</sup> March, 2021:

		₹ in Crores	
(1)	<b>Share Capital:</b> (Equity Shares of ₹ 10 each, fully paid)		462
(2)	<b>Reserves and Surplus:</b>		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	<u>33</u>	888
(3)	<b>Loan Funds:</b>		
	Secured	2,200	
	Unsecured	<u>320</u>	2,520

On the recommendations of the Board of Directors, on 16<sup>th</sup> September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,680 Crores or ₹ 2,100 Crores.

Assuming that the entire buy-back is completed by 31<sup>st</sup> December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation.

(b) Deluxe Commercial Bank has the following capital funds and assets:

	₹ In Crores
<b>Capital Funds and Assets</b>	
<b>Capital Funds:</b>	
Paid up Equity Share Capital	2,400
Statutory Reserves	480
Securities Premium	480
Capital Reserve (of Which ₹ 128 Crores were due to revaluation of assets and balance due to sale of assets)	288
Profit and Loss Account (Dr. Balance)	48
<b>Assets:</b>	
(i) Cash balance with Reserve Bank of India.	192
(ii) Claims on Banks	544
(iii) Other Investments	7,360
<b>Loans and Advances:</b>	
(i) Guaranteed by Government of India and State Governments.	1,280
(ii) Bank Staff Advances -fully covered by superannuation benefit	160
Other loans and advances	544
<b>Other Assets:</b>	
(i) Premises, Furniture & Fixtures	12,560
(ii) Intangible Assets	48
<b>Off-Balance Sheet Items:</b>	
Acceptance, Endorsements and Letters of Credit	4,800
Guarantee and other obligations	160

You are required to:

- Segregate the capital funds into Tier I and Tier II capitals, and
- Find out the risk-adjusted asset and risk weighted assets ratio. (10 + 10 = 20 Marks)

**Answer****(a) Statement determining the maximum number of shares to be bought back***Number of shares*

<b>Particulars</b>	<b>When loan fund is</b>		
	<b>₹ 2,520 crores</b>	<b>₹ 1,680 crores</b>	<b>₹ 2,100 crores</b>
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	5.25	Nil

**Journal Entries for the Buy-Back**  
**(applicable only when loan fund is ₹ 1,680 crores)**

*₹ in crores*

	<b>Particulars</b>		<b>Debit</b>	<b>Credit</b>
(a)	Equity share buy-back account Dr. To Bank account		157.5	157.5
(b)	Equity share capital account (5.25 x ₹ 10) Dr. Securities premium account (5.25 x ₹ 20) Dr. To Equity share buy-back account		52.5 105	157.5
(c)	General reserve account Dr. To Capital redemption reserve account		52.5	52.5

**Working Notes:****1. Shares Outstanding Test**

<b>Particulars</b>	<b>(Shares in crores)</b>
Number of shares outstanding	46.2
25% of the shares outstanding	11.55

**2. Resources Test**

<b>Particulars</b>	
Paid up capital (₹ in crores)	462
Free reserves (₹ in crores) (336+126+126)	<u>588</u>

Shareholders' funds (₹ in crores)	<u>1,050</u>
25% of Shareholders fund (₹ in crores)	₹ 262.5 crores
Buy-back price per share	₹ 30
Number of shares that can be bought back (shares in crores)	8.75 crores shares

### 3. Debt Equity Ratio Test

	Particulars	When loan fund is		
		₹ 2,520 crores	₹ 1,680 crores	₹ 2,100 crores
(a)	Loan funds (₹ in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹ in crores)	1,260	840	1,050
(c)	Present equity shareholders fund (₹ in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	5.25 (by simultaneous equation)	Nil

#### Note:

- Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.
- As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back.  
Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

**Equation 1:** (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

$$(1,050 - x) - 840 = y$$

Since  $210 - x = y$

**Equation 2:**  $\left( \frac{\text{Maximum buy-back}}{\text{Offer price for buy-back}} \times \text{Nominal Value} \right)$

= Nominal value of the shares bought –back to be transferred to CRR

$$= \left( \frac{y}{30} \times 10 \right) = x$$

Or  $3x = y$  (2)

by solving the above two equations we get

$$x = ₹ 52.5 \text{ crores}$$

$$y = ₹ 157.5 \text{ crores}$$

3. Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves.
4. For calculation of debt -equity ratio both secured and unsecured loans have been considered.

(b)

	(₹ in crores)
<b>(i) Capital Funds - Tier I:</b>	
Paid up Equity Share Capital	2,400.00
Securities premium	480.00
Statutory Reserve	480.00
Capital Reserve (arising out of sale of assets)	<u>160.00</u>
	3,520.00
Less: Intangible assets	48.00
Profit and Loss Account (Dr. balance)	<u>48.00</u>
	<u>(96.00)</u>
Total	3,424.00
<b>Capital Funds - Tier II:</b>	
Capital Reserve (arising out of revaluation of assets)	128.00



Less: Discount to the extent of 55%	(70.40)	57.60
Total Capital Funds		3,481.60

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

	₹ in crore	Weight in %	Amount (₹ in crore)
<b>Funded Risk Assets</b>			
Cash Balance with RBI	192	0	0
Claims on banks	544	20	108.80
Other Investments	7,360	100	7,360
<b>Loans and Advances:</b>			
(i) Guaranteed by government	1,280	0	0
(ii) Staff advances fully covered by superannuation benefits	160	20	32
(iii) Other Loans	544	100	544
Premises, furniture and fixtures	12,560	100	12,560
			<u>20,604.80</u>

Off-Balance Sheet Items	₹ in crores	Credit Conversion Factor	₹ in crore
Acceptances, Endorsements and Letters of credit	4,800	100	4,800
Guarantees and other obligations	160	100	<u>160</u>
			<u>4,960</u>

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

$$\begin{aligned} \text{Capital Adequacy Ratio} &= 3424 + 57.60 / 20,604.80 + 4,960 \\ &= (3481.60 / 25,564.80) \times 100 \\ &= 13.62\% \text{ (rounded off)} \end{aligned}$$

**Question 6**

Answer any **four** of the following:

- (a) XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31<sup>st</sup> March, 2022 has been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	Profit (Loss) ₹ in lakhs
A	225
B	25
C	(175)
D	(20)
E	(105)

- (b) In a limited company, Equity Share Capital is held by X, Y and Z in the proportion of 30:30:40. Also A, B and C hold preference share capital in the proportion of 50:30:20. The company has not paid the dividend to holders of preference share capital for more than 3 years. Given that the paid-up equity share capital of the company is ₹ 1 Crore and that of preference share capital is ₹ 50 Lakh
- Find out the relative weight in the voting right of equity shareholders and preference shareholders.
  - Also the company proposing to issue equity shares with differential voting rights (DVR) to the extent of ₹ 50 lakhs. Assuming the company fulfils other conditions pertaining to the issue of shares with DVR. Can the company issue the shares with DVR?
- (c) What are the disclosures requirements for operating leases by the lessee as per AS-19?
- (d) The position of Bad Luck Limited on its liquidation on 31 March, 2022 is as under:
- Issued and paid up capital:
- 90,000, 10% Preference Shares of ₹ 100 each, fully paid
- 90,000 Equity Shares of ₹ 100 each, fully paid up
- 30,000 Equity Shares of ₹ 50 each, 40 paid up
- 10,000 Equity Shares of ₹ 10 each, 4 paid up
- Calls in arrears are ₹ 3,00,000 and calls received in advance ₹ 2,55,000, Preference dividends are in arrears for two years. Amount left with the liquidator after discharging of all liabilities is ₹ 1,25,15,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.
- You are required to prepare the Liquidator's Final Statement of Account.
- (e) On 1<sup>st</sup> April, 2021, a company offered 100 shares to each of its 5,000 employees at ₹ 50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 60 per share. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share and fair value per option worked out to be ₹ 6.

On 31<sup>st</sup> March, 2022, 4,000 employees accepted the offer and paid ₹ 50 per share purchased. Nominal value of each share is ₹ 10.

You are required to pass journal entries (with narration) as would appear in the books of the company up to 31<sup>st</sup> March, 2022. **(4 Parts x 5 Marks = 20 Marks)**

### Answer

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

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

- ◆ The combined result of all segments in profit; i.e. ₹ 250 Lakhs or
- ◆ The combined result of all segments in loss; i.e. ₹ 300 Lakhs

Whichever is greater in absolute amount i.e. ₹ 300 Lakhs.

Operating Segment	Absolute amount of Profit or Loss (₹ In lakhs)	Reportable Segment Yes or No
A	225	Yes
B	25	No
C	175	Yes
D	20	No
E	105	Yes

On the basis of the profitability test (result criteria), segments A, C and E are reportable segments (since their results in absolute amount is 10% or more of ₹ 300 lakhs i.e. 30 lakhs).

- (b) (i) The respective voting right of various shareholders will be

$$\begin{aligned}
 X &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \text{ OR } 20\% \\
 Y &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \text{ OR } 20\% \\
 Z &= \frac{2}{3} \times \frac{40}{100} = \frac{4}{15} \text{ OR } 26.67\% \\
 A &= \frac{1}{3} \times \frac{50}{100} = \frac{1}{6} \text{ OR } 16.67\% \\
 B &= \frac{1}{3} \times \frac{30}{100} = \frac{1}{10} \text{ OR } 10\% \\
 C &= \frac{1}{3} \times \frac{20}{100} = \frac{2}{30} \text{ OR } 6.67\%
 \end{aligned}$$

Hence their relative weights are 3/15: 3/15: 4/15: 1/6: 1/10: 2/30 or 6:6:8:5:3:2.

- (ii) The voting power in respect of shares with differential rights shall not exceed *seventy four percent* of the total voting power including voting power in respect of equity shares with differential rights (DVR) issued at any point of time as per Companies (Share Capital and Debentures) Rules.

	₹
Existing Equity Share Capital paid up	1,00,00,000.00
Proposed DVR	50,00,000.00
Post DVR Equity Share Capital paid up	1,50,00,000.00
% of shares with DVR to total paid up Equity Share Capital (including Equity Shares with DVR) ( $\frac{₹ 50,00,000}{₹ 150,00,000} \times 100$ )	33.33%

In the given case 33.33% of shares with DVR to total post issue paid up Equity Capital (including Equity Shares with DVR) is not exceeding 74%. Hence, the company can issue such equity shares.

(c) As per AS 19, lessees are required to make following disclosures for operating leases:

- (a) the total of future minimum lease payments under non-cancelable operating leases for each of the following periods:
  - (i) not later than one year;
  - (ii) later than one year and not later than five years;
  - (iii) later than five years;
- (b) the total of future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date;
- (c) lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;
- (d) sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;
- (e) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
  - (i) the basis on which contingent rent payments are determined;
  - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
  - (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Note: The Level II and Level III non-corporate entities (and SMCs) need not make disclosures required by (a), (b) and (e) above.

## (d) Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Cash with liquidator	125,15,000	Return to contributors:	
Realization from:		Arrears of Preference dividend	18,00,000
Calls in arrears	3,00,000	Preference shareholders	90,00,000
Final call of ₹ 4 per equity share on 10,000 shares (₹ 4 × 10,000) See WN	<u>40,000</u>	Calls in advance	2,55,000
	<u>128,55,000</u>	Equity shareholders (90,000 × ₹ 20)	<u>18,00,000</u>
			<u>128,55,000</u>

**Working Notes:**

## (i) Calculation of amount available with liquidator after paying pref. shareholders

	₹
Cash account balance	125,15,000
Less: Payment for dividend	18,00,000
Preference shareholders	90,00,000
Calls in advance	<u>2,55,000</u>
	<u>(110,55,000)</u>
	14,60,000
Add: Calls in arrears	<u>3,00,000</u>
	<u>17,60,000</u>

(ii) Paid up Share capital = 90,00,000 + 12,00,000 + 40,000 = ₹ 1,02,40,000

(iii) Deficiency for equity shareholders:

$$₹ 1,02,40,000 - ₹ 17,60,000 = ₹ 84,80,000$$

(iv) Nominal Value of Share Capital

$$= ₹ 90,00,000 + 15,00,000 + 1,00,000 = ₹ 1,06,00,000$$

(v) % of deficiency to be borne by each equity shareholder:

$$= (₹ 84,80,000 / ₹ 1,06,00,000) \times 100 = 80\%$$

(vi) Amount refunded/recovered from equity shareholders:

	90,000 shares of ₹ 100 each	30,000 shares of ₹ 50 each	10,000 shares of ₹ 10 each
Paid up per share	₹ 100	₹ 40	₹ 4

Deficiency to bear per share (80% of nominal value)	₹ 80	₹ 40	₹ 8
	To refund ₹ 20 per share	NIL	To recover ₹ 4 per share

**Note:** Alternative presentation of the above working notes may be provided in the answer.

- (e) Fair value of an option = ₹ 56 – ₹ 50 = ₹ 6

Number of shares issued = 4,000 employees x 100 shares = 4,00,000 shares

Fair value of ESOP = 4,00,000 shares x ₹ 6 = ₹ 24,00,000

Vesting period = 1 year

Expenses recognized in 2021 – 22 = ₹ 24,00,000

Date	Particulars		₹	₹
31.03.2022	Bank (4,00,000 shares x ₹ 50) Dr.		200,00,000	
	Employees stock compensation expense A/c Dr.		24,00,000	
	To Share Capital (4,00,000 shares x ₹ 10)			40,00,000
	To Securities Premium (4,00,000 shares x ₹ 46)			184,00,000
	(Being option accepted by 4,000 employees & payment made @ ₹ 56 share)			
	Profit & Loss A/c Dr.		24,00,000	
	To Employees stock compensation expense A/c			24,00,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)			