**MOCK TEST PAPER – 1**

**INTERMEDIATE: GROUP – II**

**PAPER – 5: ADVANCED ACCOUNTING**

**ANSWERS**

**1. (a)** According to AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

| Year | Minimum Lease Payment ₹ | Internal rate of return (Discount rate @15%) | Present value ₹ |
|---|---|---|---|
| 1 | 16,00,000 | 0.8696 | 13,91,360 |
| 2 | 16,00,000 | 0.7561 | 12,09,760 |
| 3 | 16,00,000 | 0.6575 | 10,52,000 |
| 4 | 19,00,000* | 0.5718 | 10,86,420 |
| Total | 67,00,000 | | 47,39,540 |

Present value of minimum lease payments i.e. ₹ 47,39,540 is less than fair value at the inception of lease i.e. ₹ 50,00,000, therefore, the value of lease is ₹ 47,39,540 and lease liability should be recognized in the books at ₹ 47,39,540 as per AS 19.

**Calculation of Unearned Finance Income**

As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(i) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

**Gross investment** = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value(GRV)] + Unguaranteed residual value (URV)

= [(₹ 16,00,000 × 4 years) + ₹ 3,00,000] + ₹ 1,50,000 = ₹ 68,50,000

(ii) Present value of minimum lease payment from Lessor's view point

Lease liability ₹ 47,39,540 + present value of (URV) unguaranteed residual value (₹ 1,50,000 x 0.5718) = ₹ 48,25,310

Unearned Finance Income = (a) – (b) = ₹ 68,50,000 – ₹ 48,25,310= ₹ 20,24,690

*Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e 16,00,000 + 3,00,000 =19,00,000.*

**(b)** Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

| | Year 2020-21 ₹ | Year 2021-22 ₹ |
|---|---|---|
| **EPS for the year** 2020-21 **as originally reported** $= \frac{\text{Net Profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$ | | |
| = (₹ 30,00,000 / 20,00,000 shares) | 1.5 | |
| EPS for the year 2020-21 restated for rights issue | | |
| = [₹ 30,00,000 / (20,00,000 shares × 1.04 (W.N. 2)] | 1.44 (approx.) | |
| EPS for the year 2021-22 including effects of rights issue $\frac{₹\ 50,00,000}{(20,00,000 \text{ shares} \times 1.04 \times 2/12) + (24,00,000 \text{ shares} \times 10/12)}$ | | |
| ₹ 50,00,000/ 23,46,667 shares | | 2.13 (approx.) |

**Working Notes:**

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

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

$$= \frac{(₹\ 26 \times 20,00,000 \text{ shares}) + (₹\ 20 \times 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{₹\ 6,00,00,000}{24,00,000 \text{ shares}} = ₹\ 25$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{₹\ 26}{₹\ 25 \text{ (Refer Working Note 1)}} = 1.04 \text{ (approx.)}$$

**(c)** **(i)** As per AS 4'Contingencies and Events Occurring After the Balance Sheet Date', disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2022 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

**(ii)** As per AS 4, 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 ₹ 2,50,000 suffered heavy loss due to earthquake in the second week of March, 2022 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2022 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 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 2022.

**(iii)** As per AS 4, adjustments 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. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2021-22 for which the provision was also made by it, the decision of the Court on 26th May, 2022, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

**(iv)** As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31st March, 2022. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2023, in a manner, that its impact on current profit or loss can be perceived.

**(v)** Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31st March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

**(d) As per AS 26 'Intangible Assets'**

**(i) Carrying value of intangible asset as on 31.03.2021**

At the end of financial year, on 31st March 2021, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January, 2021).

**(ii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2022**

| | *(₹ in lacs)* |
|---|---:|
| Carrying Amount as on 31.03.2021 | 30 |
| Expenditure during 2021–2022 | 72 |
| Book Value | 102 |
| Recoverable Amount | (52) |
| Impairment loss | 50 |

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2022.

**(iii) Carrying value of intangible asset as on 31.03.2022**

| | *(₹ in lacs)* |
|---|---:|
| Book Value | 102 |
| *Less:* Impairment loss | (50) |
| Carrying amount as on 31.03.2022 | 52 |

**2. (a) Balance Sheet of Grey Ltd. as at 1st April, 2022**

| Particulars | Note No. | (₹) |
|---|---|---:|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 48,40,000 |

| | | |
|---|---|---|
| (b) Reserves and Surplus | 2 | 1,85,000 |
| (2) Non-Current Liabilities | | |
| Long-term borrowings | 3 | 7,50,000 |
| (3) Current Liabilities | | |
| Trade payables | | 4,15,000 |
| Total | | 61,90,000 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, Plant and Equipment | 4 | 47,60,000 |
| (b) Non-current investments | | 1,60,000 |
| (2) Current assets | | |
| (a) Inventory | | 3,05,000 |
| (b) Trade receivables | | 6,75,000 |
| (c) Cash and bank balances | | 2,90,000 |
| Total | | 61,90,000 |

**Notes to Accounts:**

| | | (₹) | (₹) |
|---|---|---|---|
| 1. | Share Capital | | |
| | Authorized: | | |
| | 2,00,000 equity shares of ₹ 25 each | | 50,00,000 |
| | 4,000 preference share of ₹ 100 each | | 4,00,000 |
| | Issued, subscribed, and paid up share capital: | | |
| | 1,80,000 Equity shares of ₹ 25 each | 45,00,000 | |
| | 3,400 Preference shares of ₹ 100 each | 3,40,000 | |
| | (all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash) | | 48,40,000 |
| 2. | Reserves and surplus | | |
| | Securities Premium (3,400 x ₹ 20) | 68,000 | |
| | Capital Reserve | 1,17,000 | 1,85,000 |
| 3. | Long-term borrowings | | |
| | 18% Debentures | | 7,50,000 |
| 4. | Property, plant and equipment | | |
| | Land and Building | 15,60,000 | |
| | Plant and Machinery | 32,00,000 | 47,60,000 |

**Working Notes:**

| | | (₹) | |
|---|---|---|---|
| | | Black Ltd. | Grey Ltd. |
| 1. | Computation of Purchase consideration | | |
| | (a) Preference shares: | | |

| | | | | | |
|---|---|---|---|---|---|
| | Shares at ₹ 120 each | | 2,40,000 | | 1,68,000 |
| | (b) Equity shares: | | | | |
| | Preceding 2 years profitability | | | | |
| | Year 1 | | 1,50,000 | | 1,20,000 |
| | Year 2 | | 2,00,000 | | 1,30,000 |
| | | | 3,50,000 | | 2,50,000 |
| | Shares (in ratio 35: 25) | | | | |
| | 1,05,000 shares at ₹ 25 | | 26,25,000 | | |
| | 75,000 shares at ₹ 25 | | | | 18,75,000 |
| | Amount of purchase consideration (a + b) | | 28,65,000 | | 20,43,000 |
| 2. | Net Assets Taken Over | | | | |
| | Assets taken over: | | | | |
| | Land and Building | | 5,20,000 | | 10,40,000 |
| | Plant and Machinery | | 18,00,000 | | 14,00,000 |
| | Investments | | 1,00,000 | | 60,000 |
| | Inventory | | 1,80,000 | | 1, 25,000 |
| | Trade receivables | | 4,25,000 | | 2,50,000 |
| | Cash and bank | | 1,60,000 | | 1,30,000 |
| | | | 31,85,000 | | 30,05,000 |
| | Less: Liabilities taken over: | | | | |
| | Debentures | 3,33,333 | | 4,16,667 | |
| | Trade payables | 2,95,000 | | 1,20,000 | |
| | | | 6,28,333 | | 5,36,667 |
| | Net assets taken over | | 25,56,667 | | 24,68,333 |
| | Purchase consideration | | 28,65,000 | | 20,43,000 |
| | Goodwill | | 3,08,333 | | |
| | Capital reserve | | | | 4,25,333 |
| Net amount of capital reserve | | | | | ₹ 1,17,000 |

| 3. | | Black Limited | White Limited |
|---|---|---|---|
| | Existing Debentures | ₹ 4,00,000 x 15% = ₹ 60,000 | ₹ 5,00,000 x 15% = ₹ 75,000 |
| | Debentures to be issued in Grey Limited @ 18% to maintain the same amount of interest | ₹ 60,000 x 100/18 = ₹ 3,33,333 | ₹ 75,000x100/18 = ₹ 4,16,667 |

**(b)** **Journal Entries**

| | | ₹ | ₹ |
|---|---|---|---|
| Equity Share Capital (old) A/c | Dr. | 20,00,000 | |
| To Equity Share Capital (₹ 10) A/c | | | 12,00,000 |
| To 10% Preference Share Capital A/c | | | 2,40,000 |
| To 8% Debentures A/c | | | 80,000 |

| | | | |
|---|---|---|---|
| To Capital Reduction A/c | | | 4,80,000 |
| (Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme) | | | |
| Bank A/c | Dr. | 2,00,000 | |
| To 10% First Debentures A/c | | | 2,00,000 |
| (Being allotment of 10% first Debentures) | | | |
| Capital Reduction A/c | Dr. | 4,80,000 | |
| To Goodwill Account | | | 2,80,000 |
| To Plant and Machinery Account | | | 1,00,000 |
| To Freehold Property Account | | | 1,00,000 |
| (Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme) | | | |

**3. (a) Balance Sheet of ABC & Co. as at 1st April, 2022**

| *Liabilities* | | ₹ | *Assets* | | ₹ |
|---|---|---|---|---|---|
| Partners' Capital Accounts: | | | Building (30,000 + 16,000) | | 46,000 |
| A | 67,300 | | Plant & machinery (19,000+32,000) | | 51,000 |
| B | 44,867 | | | | |
| C | 22,433 | 1,34,600 | Furniture (4,000+ 7,500) | | 11,500 |
| Partners' Current Accounts: | | | Vehicles (10,000+ 2,000) | | 12,000 |
| B | 92,333 | | Stock-in-trade | | |
| C | 28,067 | 1,20,400 | (50,500+19,500) | | 70,000 |
| Sundry creditors (41,000+38,000) | | 79,000 | Sundry debtors: | | |
| | | | Others | 80,500 | |
| | | | XYZ Co. | 16,000 | 96,500 |
| | | | Bank balance (15,000+18,000) | | 33,000 |
| | | | Cash in hand | | 14,000 |
| | | 3,34,000 | | | 3,34,000 |

**Partners' Capital Accounts in the books of AB & Co.**

| | *Particulars* | *A* ₹ | *B* ₹ | | *Particulars* | *A* ₹ | *B* ₹ |
|---|---|---|---|---|---|---|---|
| To | Capital A/cs- ABC & Co. | 88,800 | 82,200 | By | Balance b/d | 66,000 | 67,000 |
| | | | | By | Reserve (3:2) | 6,000 | 4,000 |
| | | | | By | Profit on Realization A/c (W.N.3) | 16,800 | 11,200 |
| | | 88,800 | 82,200 | | | 88,800 | 82,200 |

**Partners' Capital Accounts in the books of BC & Co.**

| | Particulars | B ₹ | C ₹ | | Particulars | B ₹ | C ₹ |
|---|---|---|---|---|---|---|---|
| To | Capital A/cs - | | | By | Balance b/d | 50,000 | 48,000 |
| | ABC & Co. | 69,333 | 57,667 | By | Reserve (2:1) | 3,333 | 1,667 |
| | | | | By | Profit on Realization (W.N.4) | 16,000 | 8,000 |
| | | 69,333 | 57,667 | | | 69,333 | 57,667 |

**Working Notes:**

1. **Computation of purchase consideration**

| | | AB & Co. ₹ | BC & Co. ₹ |
|---|---|---|---|
| *Assets:* | | | |
| Goodwill | | 25,000 | 18,000 |
| Building | | 30,000 | 16,000 |
| Plant & machinery | | 19,000 | 32,000 |
| Vehicles | | 10,000 | 2,000 |
| Stock-in-trade | | 50,500 | 19,500 |
| Furniture | | 4,000 | 7,500 |
| Sundry debtors | | 43,500 | 37,000 |
| Bank balance | | 15,000 | 18,000 |
| Cash in hand | | 5,000 | 9,000 |
| Due from AB & Co. | | - | 15,000 |
| Due from XYZ & Co. | | 25,000 | - |
| | (A) | 2,27,000 | 1,74,000 |
| *Liabilities:* | | | |
| Creditors | | 41,000 | 38,000 |
| Due to BC & Co. | | 15,000 | - |
| Due to XYZ & Co. | | - | 9,000 |
| | (B) | 56,000 | 47,000 |
| Purchase consideration (A-B) | | 1,71,000 | 1,27,000 |

2. **Computation of proportionate capitals and capital adjustments**

| | A ₹ | B ₹ | C ₹ | Total ₹ |
|---|---|---|---|---|
| Balance transferred from AB & Co. | 88,800 | 82,200 | | 1,71,000 |
| Balance transferred from BC & Co. | | 69,333 | 57,667 | 1,27,000 |
| | 88,800 | 1,51,533 | 57,667 | 2,98,000 |
| *Less:* Goodwill written off in the ratio of 3:2:1 | (21,500) | (14,333) | (7,167) | (43,000) |
| Existing capital | 67,300 | 1,37,200 | 50,500 | 2,55,000 |

| | | | | |
|---|---|---|---|---|
| Total Capital in the ratio of 3:2:1 taking A's Capital as base | 67,300 | 44,867 | 22,433 | |
| Amount to be transfer to current accounts | - | 92,333 | 28,067 | |

**Note: Alternatively, the adjustments of partners for goodwill can be shown in their capital accounts in the books of AB & Co. BC & Co. respectively.**

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

**Realization Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Building | 20,000 | By Creditors | 41,000 |
| To Plant & machinery | 21,000 | By Dues to BC & Co. | 15,000 |
| To Furniture | 4,000 | By ABC & Co. | 1,71,000 |
| To Vehicles | 15,000 | (purchase consideration) | |
| To Stock-in-trade | 50,500 | (W.N.1) | |
| To Sundry debtors | 43,500 | | |
| To Bank balance | 15,000 | | |
| To Cash in hand | 5,000 | | |
| To Due from XYZ & Co. | 25,000 | | |
| To Partners' capital A/cs: | | | |
| A 16,800 | | | |
| B 11,200 | 28,000 | | |
| | 2,27,000 | | 2,27,000 |

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

**Realization Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Building | 10,000 | By Creditors | 38,000 |
| To Plant & machinery | 29,000 | By Due to XYZ & Co. | 9,000 |
| To Vehicles | 5,000 | By ABC & Co. | 1,27,000 |
| To Stock-in-trade | 19,500 | (purchase consideration) | |
| To Furniture | 7,500 | (W.N.1) | |
| To Sundry debtors | 37,000 | | |
| To Bank balance | 18,000 | | |
| To Cash in hand | 9,000 | | |
| To Due from AB & Co. | 15,000 | | |
| To Partners' capital A/cs: | | | |
| B 16,000 | | | |
| C 8,000 | 24,000 | | |
| | 1,74,000 | | 1,74,000 |

**(b) Calculation of provision required on advances as on 31st March, 2022:**

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 53,600 | .25 | 134.00 |

| | | | |
|---|---|---|---|
| Sub-standard assets | 2,680 | 10 | 268.00 |
| Secured portions of doubtful debts | | | |
| –up to one year | 640 | 20 | 128.00 |
| –one year to three years | 180 | 30 | 54.00 |
| –more than three years | 60 | 50 | 30.00 |
| Unsecured portions of doubtful debts | 194 | 100 | 194.00 |
| Loss assets | 96 | 100 | 96.00 |
| | | | 904.00 |

**4. (a)** **Restated Balance Sheet of MNT Ltd.**

**as at 31st March, 2022**

| Particulars | Note No. | (₹) |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | | 7,50,000 |
| (b) Reserves and Surplus | 1 | 7,18,500 |
| (2) Current Liabilities | | |
| (a) Short term borrowings | 2 | 1,70,000 |
| (b) Trade Payables | | 2,46,000 |
| (c) Short-term provision | 3 | 4,30,000 |
| Total | | 23,14,500 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, Plant & Equipment | 4 | 6,37,500 |
| (b) Non-current Investment | | 5,30,000 |
| (2) Current assets | | |
| (a) Inventories (6,90,000 +12,000) | 5 | 7,02,000 |
| (b) Trade Receivables $\left(\frac{3,43,000}{98} \text{x}100\right)$ | | 3,50,000 |
| (c) Cash & Cash Equivalents | | 42,500 |
| (d) Other current assets | 6 | 52,500 |
| Total | | 23,14,500 |

**Notes to Accounts**

| | | | ₹ |
|---|---|---|---|
| 1. | Reserves and Surplus | | |
| | Revenue Reserve (refer W.N.) | 5,11,500 | |
| | Securities Premium | 2,07,000 | 7,18,500 |
| 2. | Short term borrowings | | |
| | Bank overdraft | | 1,70,000 |
| 3. | Short-term provision | | |

| | | | |
|---|---|---|---|
| | Provision for taxation | | 4,30,000 |
| 4. | Property, Plant and Equipment | | |
| | Cost | 9,20,000 | |
| | *Less*: Depreciation to date | (2,82,500) | 6,37,500 |
| 5. | Inventories | 6,90,000 | |
| | Increase in value as per FIFO | 12,000 | 7,02,000 |
| 6. | Other current assets | | |
| | Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500) | | 52,500 |

**Working Note:**

**Adjusted revenue reserves of MNT Ltd.:**

| | ₹ | ₹ |
|---|---|---|
| Revenue reserves as given | | 5,05,000 |
| *Add:* Provision for doubtful debts [3,43,000 X 2/98) | 7,000 | |
| *Add:* Increase in value of inventory | 12,000 | 19,000 |
| | | 5,24,000 |
| *Less:* Sales Promotion expenditure to be written off | | (12,500) |
| Adjusted revenue reserve | | 5,11,500 |

**(b)** Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2021

B = Profit & loss account balance on 1.1.2021

C = Share capital on 31.12.2021

D = Profit & loss account balance on 31.12.2021

| | *Minority % Shares Owned* [E] | *Minority interest as at the date of acquisition* [E] x [A + B] ₹ | *Minority interest as at the date of consolidation* [E] X [C + D] ₹ |
|---|---|---|---|
| Case i [100-85] | 15% | 29,250 | 30,750 |
| Case ii [100-70] | 30% | 51,000 | 39,000 |
| Case iii [100-65] | 35% | 10,500 | 10,500 |
| Case iv [100-90] | 10% | 6,500 | 8,500 |
| Case v [100-100] | NIL | NIL | NIL |

**(c) Winding up and Dissolution**

Under section 63 of the LLP Act, 2008 an LLP may be wound up voluntarily or by the Tribunal and such LLP so wound up may be dissolved

Under section 64 an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;

- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

**5. (a)** **BT Limited**

**Liquidator's Statement of Account**

| *Receipts* | | ₹ | | *Payments* | | ₹ |
|---|---|---|---|---|---|---|
| To Assets realized: | | | By | Liquidation expenses | | 45,000 |
| Bank | | 75,700 | By | Preferential creditors | | 75,000 |
| Other assets: | | | By | Liquidator's Remuneration (W.N.1) | | 1,29,600 |
| Land & building | 24,50,000 | | By | Debenture holders: | | |
| Plant & Machinery | 9,00,000 | | | Debentures | 10,00,000 | |
| Furniture | 2,85,000 | | | Interest accrued | 1,20,000 | |
| Patents | 90,000 | | | Interest 1-4-22 to 30-6-22 | 30,000 | 11,50,000 |
| Stock | 2,80,000 | | By | Unsecured creditors | | 7,36,250 |
| Trade receivables | 3,15,000 | 43,20,000 | By | Preferential shareholders | | |
| | | | | Preference capital | 10,00,000 | |
| | | | | Arrear of Dividend | 1,20,000 | 11,20,000 |
| | | | | | | 32,55,850 |
| | | | By | Equity shareholders - | | |
| | | | | ₹ 32.995 on 20,000 shares | | 6,59,900 |
| | | | | ₹ 47.995 on 10,000 shares | | 4,79,950 |
| | | 43,95,700 | | | | 43,95,700 |

**Working Notes:**

(1) Liquidator's remuneration 43,20,000 × 3/100 =₹ 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2022 to 30-6-2022

10,00,000 x 12% x3/12 = ₹ 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000) ₹ 19,50,000

*Less*: Balance available after payment to unsecured creditors and preference shares

(43,95,700 — 32,55,850) ₹ (11,39,850)

₹ 8,10,150

Loss to be born by 30,000 equity shares

Loss per share ₹ 27.005

Hence, Refund for share on ₹ 60 paid share (60 - 27.005) ₹ 32.995

Refund for share on ₹ 75 paid (75 - 27.005) ₹ 47.995

**(b)** (i) **Capital Funds –**

| | |
|---|---|
| Tier I : | *₹ in crore* |
| Equity Share Capital | 600 |
| Statutory Reserve | 470 |
| Capital Reserve (arising out of sale of assets) | 105 |
| Less: Profit & Loss (Dr. bal.) | (30) |
| | 1,145 |
| Capital Funds - Tier II : | |
| Capital Reserve (arising out of revaluation of assets) | 25 |
| Less: Discount to the extent of 55% | (13.75) |
| | 11.25 |

(ii) **Risk Adjusted Assets**

| **Funded Risk Assets** | **₹ in crore** | **Percentage weight** | **Amount ₹ in crore** |
|---|---|---|---|
| Cash Balance with RBI | 35.50 | 0 | — |
| Balances with other Banks | 15 | 20 | 3 |
| Claims on banks | 52.50 | 20 | 10.50 |
| Other Investments | 70 | 100 | 70 |
| Loans and Advances: | | | |
| (i) guaranteed by government | 22.50 | 0 | — |
| (ii) guaranteed by DICGC/ECGC | 110 | 50 | 55 |
| (iii) Others | 9,365 | 100 | 9,365 |
| Premises, furniture and fixtures | 92.50 | 100 | 92.50 |
| Leased Assets | 40 | 100 | 40 |
| | | | 9,636 |

| ***Off-Balance Sheet Item*** | ***₹ in Crore*** | ***Credit Conversion Factor*** | ***₹ In Crore*** |
|---|---|---|---|
| (i) Acceptances, Endorsements and Letters of credit | 1,100 | 100 | 1,100 |
| (ii) Guarantees and other obligations | 6,200 | 100 | 6,200 |
| | | | 7,300 |

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

= (1,145 +11.25)/ (9,636 +7,300)

= (1,156.25 /16,936) x 100 = 6.83% (rounded off)

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

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

**(b)** Statement showing provisions on various performing and non-performing assets

| | *Amount* | *% of* | *Provision* |
|---|---|---|---|
| | *₹ in lakhs* | *provision* | *₹ in lakhs* |
| Standard | 25,000 | 0.40 | 100 |
| Sub-standard (Secured) | 7,000 | 15 | 1,050 |
| (Unsecured) | 8,000 | 25 | 2,000 |
| Doubtful (upto one year) | | | |
| On secured portion | 2,200 | 25 | 550 |
| On unsecured portion | 2,300 | 100 | 2,300 |
| Doubtful (more than one year but upto three years) | | | |
| On secured portion | 1,200 | 40 | 480 |
| On unsecured portion | 2,000 | 100 | 2,000 |
| Doubtful Unsecured (more than three years) | 1,300 | 100 | 1,300 |
| Loss Assets | 530 | 100 | 530 |
| Total provision | | | 10,310 |

**(c)**

| | ₹ |
|---|---|
| Cost incurred till 31st March, 2020 | 129,98,000 |
| Prudent estimate of additional cost for completion | 64,02,000 |
| Total cost of construction | 194,00,000 |
| *Less*: Contract price | (170,00,000) |
| Total foreseeable loss | 24,00,000 |

As per AS 7 Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Hence the foreseeable loss of ₹ 24,00,000 should be recognized as an expense immediately in the year ended 31st March 2020.

Contract work in progress = 129,98,000/194,00,000 X 100= 67%

Proportion of contract value recognized as turnover as per AS 7

= 67% of ₹ 170,00,000 = ₹ 113,90,000.

**(d)** Since the exercise price varies depending on the outcome of a performance condition which is not a market condition, the effect of that performance condition (i.e. the possibility that the exercise price might be ₹ 40 and the possibility that the exercise price might be ₹ 30) is not considered when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcomes of that performance condition at the end of every year based on the information available at that point of time.

**Calculation of compensation expense to be charged every year**

| Year | Calculation | Expense for the year (₹) | Cumulative expense (₹) |
|---|---|---|---|
| 1 | 10,000 x ₹ 16 x 1/3 | 53,333 | 53,333 |
| 2 | 10,000 x ₹ 16 x 2/3 | 53,334 | 1,06,667 |
| 3 | 10,000 x ₹ 12 x 3/3 | 13,333 | 1,20,000 |

**(e)** (i) Reporting entity- Maya Ltd.

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

(ii) Reporting entity- Sheetal Ltd.

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

(iii) Reporting entity- Fair Ltd.

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

(v) Reporting entity- Care Ltd.

- Fair Ltd. (associate) is a related party