

MOCK TEST PAPER
INTERMEDIATE (NEW) : GROUP – II
PAPER – 5: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Time Allowed: 3 Hours

Maximum Marks: 100

1. (a) (i) Mr. Arnav a relative of key management personnel received remuneration of ₹ 3,00,000 for his services in the company for the period April 1, 2019 to June 30, 2019. On July 1, 2019 he left the job.
- Should Mr. Arnav be identified as Related Party at the closing date i.e. March 31, 2020 for the purposes of AS 18?
- (ii) A limited company sold goods to its associate company for the 1st quarter ending June 30, 2020. After that, the related party relationship ceased to exist. However, goods were supplied continuously even after June 30, 2020 as was supplied to another ordinary customer. Does this require disclosure as related party transaction for the entire financial year?
- (b) New Era Publications publishes a monthly magazine on 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2020 issue was made in February 2020. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2020 and ₹ 60,000 on 10.4.2020 for the March, 2020 issue.
- Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2020. What will be the treatment if the publication is delayed till 2.4.2020?
- (c) Akar Ltd. signed on 01/04/19, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/20.
- Materials used ₹ 71,00,000
 - Labour charges paid ₹ 36,00,000
 - Hire charges of plant ₹ 10,00,000
 - Other contract cost incurred ₹ 15,00,000
 - Labour charges of ₹ 2,00,000 are still outstanding on 31.3.20.
 - It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.
- You are required to compute profit/loss for the year to be taken to Profit & Loss Account and additional provision for foreseeable loss to be recognized as per AS 7.
- (d) Sudesh Ltd. acquired a patent at a cost of ₹ 2,40,00,000 for a period of 5 years and the product life-cycle was also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 48,00,000 per annum. 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 ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years if the patent was renewable and Sudesh Ltd. got it renewed after expiry of five years.
- (4 Parts x 5 Marks = 20 Marks)**

2. (a) M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm as on 31st March, 2020 was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
M		1,36,000
N		90,000
O		46,000
Drawing A/cs:		
M	50,000	
N	46,000	
O	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31 st March		2,48,600
Cash at Bank	<u>1,78,600</u>	<u> </u>
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Accounts at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are given terms and conditions as under:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

- (i) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.
- (ii) Capital Accounts showing all adjustments required to dissolve the Partnership.
- (iii) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

- (b) A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd at the financial year end i.e. 31 March 2020. What will be the accounting treatment for this transaction in the consolidated financial statements of A Ltd? **(16+4 = 20 Marks)**

3. (a) Two companies named Alex Ltd. and Beta Ltd. provide you the following summary of ledger balances as on 31st March, 2020:

	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
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

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:

- (i) Prepare necessary Ledger Accounts to close the books of Beta Ltd.
- (ii) Show the acquisition entries in the books of Alex Ltd.
- (iii) Also draft the Balance Sheet after absorption as at 31st March, 2020.
- (b) Explain the difference between pooling of interest and purchase method of accounting for amalgamations. **(16 + 4 = 20 Marks)**
4. (a) Astha Bank has the following Capital Funds and Assets as at 31st March, 2020:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00

Capital Reserve (out of which ₹ 25 crores were due to revaluation of assets and balance due to sale of assets)	130.00
Assets:	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by Government	22.50
(ii) Guaranteed by PSUs of Central Government	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00
Off- Balance Sheet items:	
(i) Acceptances, endorsements and letters of credit	1,100.00
(ii) Guarantees and other obligations	6,200.00

You are required to: (i) Segregate the capital funds into Tier I and Tier II capitals; and (ii) Find out the risk-adjusted assets.

- (b) A non-banking finance company provides the extract of its balance sheet as given below:

Equity and Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
Paid-up equity capital	400	Leased out assets	3,200
Free reserves	2,000	Investment:	
Loans	1,600	In shares of subsidiaries and	
Deposits	1,600	group companies	400
		In debentures of subsidiaries and	
		group Companies	400
		Cash and bank balances	800
		Deferred expenditure	<u>800</u>
	<u>5,600</u>		<u>5,600</u>

You are required to compute 'Net owned Fund' of this NBFC as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

- (c) The following was the summarized balance sheet of Bhoomi Ltd. as on 31st March, 2020:

Equity & liability	₹ (in lakhs)	Assets	₹ (in lakhs)
Authorised Capital:		Property, plant and equipment	1,12,000
Equity shares of ₹ 10 each	<u>80,000</u>	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of ₹10 each Fully Paid up	64,000	Trade Receivables	66,000

10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	<u>26,400</u>		
	<u>2,15,200</u>		<u>2,15,200</u>

On 1st April, 2020 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make Cash available, the Company sold all the Investments for ₹25,000 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium may be utilized to the maximum extent allowed by law. **(8 + 4 + 8 = 20 Marks)**

5. (a) (i) Hemant Ltd. purchased 80% shares of Power Ltd. on 1st January, 2019 for ₹ 2,10,000. The issued capital of Power Ltd., on 1st January, 2019 was ₹ 1,50,000 and the balance in the Profit & Loss Account was ₹ 90,000. During the year ended 31st December, 2019, Power Ltd. earned a profit of ₹ 30,000 and at year end, declared and paid a dividend of ₹ 22,500. What is the amount of minority interest as on 1st January, 2019 and 31st December, 2019? Also compute goodwill/ capital reserve at the date of acquisition.
- (ii) King Ltd. acquires 70% of equity shares of Queen Ltd. as on 31st March, 2020 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Queen Ltd. as on 31st March, 2020:

	₹ in lakhs
Property, plant and equipment	240
Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment Up by 20%

Investments Down by 10%

Queen Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2020 (Face value - ₹10 per share). King Ltd. purchased the shares of Queen Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Queen Ltd.

(6 + 6 = 12 Marks)

(b) The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorized and subscribed capital:		Property, plant and equipment:	
20,000 Equity shares of ₹ 100 each fully paid	20,00,000	Machineries	7,00,000
Unsecured loans:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000
Interest payable thereon	90,000	Trade receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- Balance of Profit and Loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

(8 Marks)

6. (a) On 1st April, 2019 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2019 the remaining ₹ 5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2020 was ₹ 21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹ 3,40,000.

You are required to compute Basic EPS for the year ended 31st March, 2020 as per Accounting Standard 20 "Earnings Per Share".

- (b) The financial statements of Alpha Ltd. for the year 2019-2020 were approved by the Board of Directors on 15th July, 2020. The following information was provided:
- A suit against the company's advertisement was filed by a party on 20th April, 2020 claiming damages of ₹ 25 lakhs.
 - The terms and conditions for acquisition of business of another company had been decided by March, 2020. But the financial resources were arranged in April, 2020 and amount invested was ₹ 50 lakhs.

- (iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2020, was detected on 16th July, 2020.
- (iv) The company started a negotiation with a party to sell an immovable property for ₹ 40 lakhs in March, 2020. The book value of the property is ₹ 30 lakh on 31st March, 2020. However, the deed was registered on 15th April, 2020.
- (v) A major fire had damaged the assets in a factory on 5th April, 2020. However, the assets were fully insured.

With reference to AS 4, state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

OR

Monu Ltd. sold machinery having WDV of ₹ 400 lakhs to Sonu Ltd. for ₹ 500 lakhs and the same machinery was leased back by Sonu Ltd. to Monu Ltd. The lease back was in nature of operating lease.

Explain the accounting treatment as per AS 19 in the following cases:

- (i) Sale price of ₹ 500 lakhs is equal to fair value.
 - (ii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs.
 - (iii) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs.
 - (iv) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs
- (c) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation expenses	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

- (d) Suvidhi Ltd. offered 50 stock options to each of its 1500 employees on 1st April 2019 for ₹ 30. Option was exercisable within a year it was vested. The shares issued under this plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is ₹ 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 38 per share. On 31st March, 2020, 1200 employees accepted the offer and paid ₹ 30 per share purchased. Nominal value of each share is ₹ 10. Record the issue of shares in the books of the company under the aforesaid plan.

(4 Parts x 5 Marks = 20 Marks)

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1. (a) (i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2020.
- (ii) As per AS 18, transactions of company with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.
- (b) As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished. In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is published and hence revenue is recognized on that date. In this case, 15.03.2020 is the date of publication of the magazine. Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2020. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Since, the revenue of ₹ 3,00,000 will be recognised in the March, 2020, ₹ 60,000 will be treated as amount due from advertisers as on 31.03.2020 and ₹ 2,40,000 will be treated as payment received against the sale. However, if the publication is delayed till 02.04.2020 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized in the year ended 31.03.2020 after the magazine is published on 02.04.2020. The amount received from sale of advertising space on 10.03.2020 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2020.
- (c) **Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7**

Cost of Construction	₹	₹
Material used		71,00,000
Labour Charges paid	36,00,000	
<i>Add:</i> Outstanding on 31.03.2020	<u>2,00,000</u>	38,00,000
Hire Charges of Plant		10,00,000
Other Contract cost incurred		<u>15,00,000</u>
Cost incurred upto 31.03.2020		1,34,00,000
<i>Add:</i> Estimated future cost		<u>33,50,000</u>
Total Estimated cost of construction		<u>1,67,50,000</u>
Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%
Revenue recognized (80% of 1,50,00,000)		1,20,00,000
Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000

Less: Loss for the current year (1,34,00,000 - 1,20,00,000)	<u>14,00,000</u>
Loss to be provided for	3,50,000

- (d) The entity amortised ₹ 48,00,000 per annum for the first two years i.e. ₹ 96,00,000. 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	-	0.20	48,00,000
II	-	<u>0.20</u>	48,00,000
III	36,00,000	0.180	25,92,000
IV	46,00,000	0.230	33,12,000
V	44,00,000	0.220	31,68,000
VI	40,00,000	0.200	28,80,000
VII	<u>34,00,000</u>	<u>0.170</u>	<u>24,48,000</u>
Total	<u>2,00,00,000</u>	<u>1.000</u>	<u>2,40,00,000</u>

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹ 1,44,00,000 has been amortized in the ratio of net cash flows arising from the product of Change Ltd.

2. (a) (i) **Number of Shares to be issued to Partners**

₹	
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 + Trade Receivable ₹ 1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	<u>3,32,000</u>

Classes of Shares to be issued:	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each (3,32,000 - 2,72,000) (issued in profit sharing ratio)	30,000	18,000	12,000	60,000
	<u>1,66,000</u>	<u>1,08,000</u>	<u>58,000</u>	<u>3,32,000</u>

(ii) **Partners' Capital Accounts**

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year (W.N. 1) 5:3:2	1,10,700	66,420	44,280

To Bank – Additional Drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(iii) **Balance sheet of MNO Ltd. as on 31st March, 2020 (after Takeover of Firm)**

		Note no.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		<u>5,01,400</u>
II	Assets		
	(1) Non-Current Assets		
	Property, plant and equipment - Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		<u>1,00,000</u>
	Total		<u>5,01,400</u>

Notes to Accounts

	Particulars	₹
1.	Share capital	
	Authorized shares capital	20,00,000
	Issued, Subscribed & paid up	
	6,000 Equity Shares of ₹ 10 each	60,000
	27,200 10% Preference Shares capital of ₹ 10 each	<u>2,72,000</u>
	(All above shares issued for consideration other than cash, in takeover of partnership firm)	3,32,000

Working Notes:

1. Profit & Loss Appropriation Account for the year ended 31st March, 2020

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	2,48,600
M [₹ 1,36,000 x 10%]	13,600			
N [₹ 90,000 x 10%]	9,000			
O [₹ 46,000 x 10%]	<u>4,600</u>	27,200		

To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	<u>44,280</u>	<u>2,21,400</u>		
		2,48,600		<u>2,48,600</u>

2. **Statement showing Additional Drawings in Cash**

(a) **Funds available for Drawings**

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	<u>78,600</u>
		2,08,600
Less:	Interest on Capital	<u>(27,200)</u>
	Amount available for Drawings	<u>1,81,400</u>

(b) **Ascertainment of Additional Drawings**

Particulars	M	N	O
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	<u>13,600</u>	<u>9,000</u>	<u>4,600</u>
	1,04,300	63,420	40,880
Less: Already drawn	<u>(50,000)</u>	<u>(46,000)</u>	<u>(34,000)</u>
Additional Drawings	<u>54,300</u>	<u>17,420</u>	<u>6,880</u>

(b) This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2020, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2020, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2020.

3. (a) (i) **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 (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	<u>1,40,000</u>	By Alex Ltd.	14,84,000
	<u>17,64,000</u>		<u>17,64,000</u>

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)	<u>1,40,000</u>
	<u>11,76,000</u>		<u>11,76,000</u>

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)	<u>28,000</u>
	<u>3,08,000</u>		<u>3,08,000</u>

Alex Ltd. Account

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

(ii) **In the Books of Alex Ltd.**

Journal Entries

	<i>Dr.</i>	<i>Cr.</i>
	₹	₹
Business Purchase A/c Dr.	14,84,000	
To Liquidators of Beta Ltd. Account (Being business of Beta Ltd. taken over)		14,84,000
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).			

(iii) **Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020**

<i>Particulars</i>	<i>Notes</i>	<i>₹</i>
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		<u>55,65,000</u>
Assets		
1 Non-current assets		
A Property, Plant and Equipment (PPE)	3	31,08,000
B Intangible assets		2,80,000
2 Current assets		
A Inventories		11,41,000
B Trade receivables		8,40,000
C Cash and cash equivalents		<u>1,96,000</u>
Total		<u>55,65,000</u>

Notes to accounts:

<i>Particulars</i>	<i>₹</i>
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	<u>45,08,000</u>

2 Reserves and Surplus	
Securities Premium	56,000
General Reserve	1,96,000
Total	2,52,000
3 PPE	
Buildings	12,60,000
Machinery	18,48,000
Total	31,08,000

Working Notes:

<i>Purchase Consideration:</i>	₹
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
<i>Less: Liabilities:</i>	
Retirement Gratuity	(56,000)
Trade payables	<u>(2,24,000)</u>
Net Assets/ Purchase Consideration	<u>14,84,000</u>
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
<i>Add: 10% Premium</i>	<u>28,000</u>
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	<u>11,76,000</u>
Total	<u>14,84,000</u>

(b) Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than

statutory reserves, of the transferor company should be incorporated in the financial statements of transferee company.

4. (a) (i) Capital Funds –

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

(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 PSUs	110	0	—
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased Assets	40	100	<u>40</u>
			<u>9,581</u>

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

	₹ in 000
Paid up Equity Capital	400
Free Reserves	<u>2,000</u>
	2,400
Less: Deferred expenditure	<u>(800)</u>
	<u>1,600</u>
Investments	
In shares of subsidiaries and group companies	400
In debentures of subsidiaries and group companies	<u>400</u>

10% of A	B	800
Excess of Investment over 10% of A (800-160)	C	640
Net Owned Fund [(A) - (C)] (1,600-640)		960

(c)

**Journal entries
In the books of Bhoomi Ltd.**

		Dr.	Cr.
			₹ in lakhs
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to Profit and Loss Account)	Dr.	25,000 24,000 1,000
2	10% Redeemable Preference Share Capital A/c Premium payable on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	Dr. Dr.	20,000 2,000 22,000
3	Securities Premium A/c To Premium payable on Redemption of Preference Shares A/c (Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)	Dr.	2,000 2,000
4	Equity Share Capital A/c Premium payable on Buyback A/c To Equity Share buy back A/c (Being the amount due on buy-back)	Dr. Dr.	16,000 16,000 32,000
5	Securities Premium A/c (6,400 – 2,000) General Reserve A/c (balancing figure) To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)	Dr. Dr.	4,400 11,600 16,000
6	Bank A/c To Bank Loan A/c (Being Loan taken from Bank to finance Buyback)	Dr.	16,000 16,000
7	Preference Shareholders A/c Equity Shares buy back A/c	Dr. Dr.	22,000 32,000

	To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)		54,000
8	General Reserve Account	Dr.	36,000
	To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)		36,000

5. (a) (i) Total dividend paid is ₹ 22,500 (out of post-acquisition profits), hence dividend received by Hemant will be credited to P & L account.

Hemant Ltd.'s share of dividend = ₹ 22,500 X 80% = ₹ 18,000

	₹	₹
Goodwill on consolidation (at the date of acquisition):		
Cost of shares		2,10,000
Less: Face value of capital i.e. 80% of capital	1,20,000	
Add: Share of capital profits [90,000 X 80 %]	<u>72,000</u>	<u>(1,92,000)</u>
Goodwill		<u>18,000</u>
Minority interest on:		
- 1st January, 2019:		
20% of ₹ 2,40,000 [1,50,000 + 90,000]		48,000
- 31st December, 2019:		49,500
20% of ₹2,47,500 [1,50,000 + 90,000 + 30,000 – 22,500]		

- (ii) Revalued net assets of Queen Ltd. as on 31st March, 2020

	₹ in lakhs	₹ in lakhs
PPE [240 X 120%]		288
Investments [110 X 90%]		99
Current Assets		140
Loans and Advances		<u>30</u>
Total Assets after revaluation		557
Less: 15% Debentures	180.0	0
Current Liabilities	<u>100.0</u>	<u>(280)</u>
Equity / Net Worth		<u>277</u>
King Ltd.'s share of net assets (70% of 277)		193.9
King Ltd.'s cost of acquisition of shares of Queen Ltd.		0
(₹140 lakhs – ₹14 lakhs*)		<u>126</u>
Capital reserve		67.9

* Total Cost of 70 % Equity of Queen Ltd

₹ 140 lakhs

Purchase Price of each share	₹ 20
Number of shares purchased [140 lakhs / ₹ 20]	₹ 7 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 14 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

(b) **In the books of Preeti Limited**
Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c To Share Surrender A/c To Equity Share Capital (₹ 10) A/c (Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	Dr.	20,00,000	
				10,00,000
				10,00,000
(ii)	15% Debentures A/c Interest payable A/c (proportionate 50%) To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	Dr. Dr.	3,00,000 45,000	
				3,45,000
(iii)	Trade payables A/c To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	Dr.	1,04,000	
				1,04,000
(iv)	Share Surrender A/c To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	Dr.	10,00,000	
				2,00,000
				78,000
				7,22,000
(v)	Reconstruction A/c To Profit & Loss A/c To Capital Reserve A/c	Dr.	11,71,000	
				11,60,000
				11,000

	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)
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Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

6. (a) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = ₹ 4.80 \text{ per share}$$

Working Note:

Calculation of weighted average number of equity shares

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
1.4.2020	6,00,000	5	6,00,000 x 5/10 x 5/12 = 1,25,000
1.9.2020	5,40,000	10	5,40,000 x 7/12 = 3,15,000
1.9.2020	60,000	5	60,000 x 5/10 x 7/12 = <u>17,500</u>
Total weighted average equity shares			<u>4,57,500</u>

- (b) (i) **Non-adjusting event:** Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 20th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statement and will be a non-adjusting event.
- (ii) **Adjusting event:** In the given case, terms and conditions for acquisition of business were finalised before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2020. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2020.
- (iii) **Non-adjusting event:** Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure. In the given case, as the theft of cash was detected on 16th July, 2020 ie after approval of financial statements, no adjustment is required.

- (iv) **Non-adjusting event:** Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations only started) on the balance sheet date, and was not finalized. Therefore, adjustment to assets for sale of immovable property is not necessary in the financial statements for the year ended 31st March, 2020. Disclosure may be given in Report of approving Authority.
- (v) **Non-adjusting event:** Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding fire and loss, being completely insured may be given in the report of approving authority.

OR

Following will be the treatment in the given cases:

- (i) When sales price of ₹ 500 lakhs is equal to fair value, Monu Ltd. should immediately recognise the profit of ₹ 100 lakhs (i.e. 500 – 400) in its books.
- (ii) When fair value of leased machinery is ₹ 450 lakhs & sales price is ₹ 380 lakhs, then loss of ₹ 20 lakhs (400 – 380) to be immediately recognised by Monu Ltd. in its books provided loss is not compensated by future lease payment.
- (iii) When fair value is ₹ 400 lakhs & sales price is ₹ 500 lakhs then, profit of ₹ 100 lakhs is to be deferred and amortised over the lease period.
- (iv) When fair value is ₹ 460 lakhs & sales price is ₹ 500 lakhs, profit of ₹ 60 lakhs (460-400) to be immediately recognised in its books and balance profit of ₹ 40 lakhs (500-460) is to be amortised/deferred over lease period.

(c) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realized	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		<u>39,255</u>
Total Remuneration payable to Liquidator		<u>91,505</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 25,00,000 – ₹ 25,000 – ₹ 10,00,000 – ₹ 75,000 – ₹ 50,000 – ₹ 2,250 = ₹ 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

(d) Journal Entries in the books of Suvidhi Ltd.

Date	Particulars		Dr. (₹)	Cr. (₹)
31.3.20	Bank A/c (60,000 shares x ₹ 30)	Dr.	18,00,000	
	Employees stock compensation expense A/c	Dr.	4,80,000	

To Share Capital A/c (60,000 shares x ₹ 10)		6,00,000
To Securities Premium (60,000 shares x ₹ 28)		16,80,000
(Being shares issued under ESOP @ ₹ 30 to 1,200 employees)		
Profit & Loss A/c	Dr.	4,80,000
To Employees stock compensation expense A/c		4,80,000
(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

Working Note:

Fair value of an option = ₹ 38 – ₹ 30 = ₹ 8

Number of shares issued = 1,200 employees x 50 shares = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2019-2020
= 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2019-2020 = ₹ 4,80,000