

MOCKTEST PAPER 1
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) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being Rs. 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays Rs. 3,50,000. The lessee has guaranteed a residual value of Rs. 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be Rs. 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.
- (b) A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (Rs. in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

- (c) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of “Franchise Retail Petrol Outlet Stations”. Based on proposals submitted to different Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for Rs. 490 lakhs. The agreement lays down values for each of the four outlets (Rs. 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. You are required to examine and comment whether X Ltd., will treat it as a single contract or four separate contracts.

- (d) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2019:
- On 15th January, 2019 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2019.
 - Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2019 but at the request of Shine Boutique, these were delivered on 15th April, 2019.
 - On 1st November, 2018 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2018 and no approval or disapproval received for the remaining goods till 31st March, 2019.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9. **(4 Parts x 5 Marks = 20 Marks)**

2. (a) M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

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

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

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

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

- Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs. 12,50,000.

- (3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. A agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.
- (5) Mr. B agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

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

- (b) 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 Rs. 25,00,000 against which payment was made as follows:

Liquidation expenses	Rs. 25,000
Secured Creditors	Rs. 10,00,000
Preferential Creditors	Rs. 75,000

The amount due to Unsecured Creditors was Rs. 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.

(15 + 5 = 20 Marks)

3. (a) The following was the summarized balance sheet of Mukta Ltd. as on 31st March, 2019:

<i>Equity & liability</i>	<i>Rs. (in lakhs)</i>	<i>Assets</i>	<i>Rs. (in lakhs)</i>
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of Rs. 10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of Rs.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> </u>
	<u>2,15,200</u>		<u>2,15,200</u>

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at Rs.20 per Share. In order to make Cash available, the Company sold all the Investments for Rs.25,200 Lakhs and raised a Bank Loan amounting to Rs.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 will be utilized to the maximum extents allowed by law.

- (b) On 1st April, 2018, a company offered 100 shares to each of its 500 employees at Rs. 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 Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 56 per share. On 31st March, 2019, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each shares is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

- (c) Gemini Ltd. came up with public issue of 30,00,000 Equity shares of Rs. 10 each at Rs. 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.

Applications were received for 27,00,000 shares.

The marked applications were received as under:

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

You are required to compute the liability of each underwriter as regards the number of shares to be taken up. **(12+4+4= 20 Marks)**

4. (a) From the following balances extracted from the books of General Insurance Company Limited as on 31.3.2019 you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2019 and a Profit and Loss Account for the same period:

	Rs.		Rs.
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.2018)	90,000
Provision for Taxation (as on 1.4. 2018)	85,000	Income-tax paid during the year	60,000

	Fire Rs.	Marine Rs.
Outstanding Claims on 1.4. 2018	28,000	7,000
Claims paid	1,00,000	80,000
Reserve for Unexpired Risk on 1.4.2018	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account:

- Depreciation on Fixed Assets to be provided at 10% p.a.
 - Interest accrued on investments Rs. 10,000.
 - Closing provision for taxation on 31.3.2019 to be maintained at Rs. 1,24,138.
 - Claims outstanding on 31.3.2019 were Fire Insurance Rs. 10,000; Marine Insurance Rs. 15,000.
 - Premium outstanding on 31.3.2019 were Fire Insurance Rs. 30,000; Marine Insurance Rs. 20,000.
 - Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.
 - Expenses of management due on 31.3.2019 were Rs. 10,000 for Fire Insurance and Rs. 5,000 in respect of marine Insurance.
- (b) Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
	Rs. in 000		Rs. in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	
Deposits	400	group companies	100
		In debentures of subsidiaries and	
		group Companies	100
		Cash and bank balances	200
		Deferred expenditure	200
	<u>1,400</u>		<u>1,400</u>

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. **(15 + 5 = 20 Marks)**

5. (a) A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of Rs. 10,00,000 when B Ltd. had an equity share capital of Rs. 10,00,000 and reserves and surplus of Rs. 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of Rs. 2,50,000, Rs. 4,00,000, Rs. 5,00,000 and Rs. 1,20,000 respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit of Rs. 50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of Rs. 1,00,000 and Rs. 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.
- (b) The summarized Balance Sheet of R Ltd. for the year ended on 31st March, 2017, 2018 and 2019 are as follows:

	(Rs. in thousands)		
	31.3.2017	31.3.2018	31.3.2019
Liabilities			
3,20,000 equity shares of Rs. 10 each, fully paid	3,200	3,200	3,200
General reserve	2,400	2,800	3,200
Profit and Loss account	280	320	480
Trade Payables	1,200	1,600	2,000
	7,080	7,920	8,880
Assets			
Goodwill	2,000	1,600	1,200
Building and Machinery less, depreciation	2,800	3,200	3,200
Inventory	2,000	2,400	2,800
Trade Receivables	40	320	880
Bank balance	240	400	800
	7,080	7,920	8,880

Additional information:

- (i) Actual valuations were as under:

Building and machinery less, depreciation	3,600	4,000	4,400
Inventory	2,400	2,800	3,200
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	840	1,240	1,640

- (ii) Capital employed in the business at market value at the beginning of 2016-17 was Rs. 73,20,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by R Ltd. is 12½%.
- (iii) The balance in the general reserve on 1st April, 2016 was Rs. 20 lakhs.
- (iv) The goodwill shown on 31.3.2017 was purchased on 1.4.2016 for Rs. 20 lakhs on which date the balance in the Profit and Loss account was Rs. 2,40,000. Find out the average capital employed in each year.

You are required to compute the value of Goodwill at 5 year's purchase of Super profit (Simple average method). **(12 + 8 = 20 Marks)**

6. (a) An airline is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are required to comment on the validity of the treatment done by the company in line with the provisions of AS 29.
- (b) Omega Bank Statement of interest on advances in respect of Performing assets and Non-Performing Assets are as follows:- (in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 20X1.

OR

A fund purchased 10,000 debentures of a company on June 1, 2018 for Rs. 10.7 lakh and further 5,000 debentures on Nov 1, 2018 for Rs. 5.45 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31 March and 30 September. On Feb 28, 2019 the fund sold 6,000 of these debentures for Rs. 6.78 lakh. Nominal value per debenture is Rs. 100.

Show Investment in Debentures A/c in books of the fund.

- (c) W, X, Y and Z hold equity share capital in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. If the paid up capital of the company is Rs. 40 Lakh and Preference share capital is Rs. 20 Lakh, Find their voting rights in case of resolution of winding up of the company.
- (d) The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2019:

Liabilities	Rs.	Assets	Rs.
14,000 Equity shares of Rs. 100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	<u>50,000</u>		
	<u>18,00,000</u>		<u>18,00,000</u>

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of Rs. 25,000.

(4 Parts x 5 Marks = 20 Marks)

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SUGGESTED ANSWERS/HINTS

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

Value of machinery

In the given case, fair value of the machinery is Rs. 10, 00,000 and the net present value of minimum lease payments is Rs. 10, 07,020 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value of Rs.10,00,000.

Calculation of finance charges for each year

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

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor Rs. 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	Rs. 9,79 ,405
Present value of guaranteed residual value Rs. 50,000 x (0.5523)	Rs. 27,615
	Rs. 10,07,020

- (b) As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-à-vis production is determined reliably. A Ltd. should amortize the license fee of Rs. 200 lakhs as under:

Year	Net operating Cash in flow (Rs.)	Ratio	Amortize amount (Rs. in lakhs)
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1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	<u>3,200</u>	<u>0.11 (bal.)</u>	<u>22</u>
	<u>27,400</u>	<u>1.00</u>	<u>200</u>

(c) As per AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS 7.

(d) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.19. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2019.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed,

a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2019 in the books of Fashion Ltd.

2. Journal Entries

		Rs.	Rs.
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
To Equity share capital (Rs. 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at Rs. 40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To A A/c			1,00,000
(Being new debentures subscribed by A)			

8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.		
(51,84,000 – 42,70,000)		9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2019

<i>Particulars</i>		<i>Notes</i>	<i>Rs.</i>
	Equity and Liabilities		
1	Shareholders' funds		
	a Share capital	1	80,00,000
2	Non-current liabilities		
	a Long-term borrowings	2	<u>8,50,000</u>
	Total		<u>88,50,000</u>

		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment		
		Tangible assets	3	63,04,000
2		Current assets		
	a	Inventories		3,50,000
	b	Trade receivables		9,81,000
	c	Cash and cash equivalents		<u>12,15,000</u>
		Total		<u>88,50,000</u>

Notes to accounts

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

Working Notes:

1. Cash at Bank Account

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Balance b/d	2,68,000	By Trade payables A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To A A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. Capital Reduction Account

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By B A/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000

	By Capital Reserve A/c	5,00,000
<u>33,41,000</u>		<u>33,41,000</u>

(b) Calculation of Total Remuneration payable to Liquidator

	<i>Amount in Rs.</i>
2% on Assets realised	25,00,000 x 2%
3% on payment made to Preferential creditors	75,000 x 3%
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

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

Liquidator's remuneration on payment to unsecured creditors = $3/103 \times \text{Rs. } 13,47,750 = \text{Rs. } 39,255$

3. (a)

Journal entries

In the books of Mukta Ltd.

		<i>Dr.</i>	<i>Cr.</i>
		<i>Rs. in lakhs</i>	
1	Bank A/c Dr.	25,200	
	To Investments A/c		24,000
	To Profit and Loss A/c		1,200
	(Being Investments sold and, profit being credited to Profit and Loss Account)		
2	10% Redeemable Preference Share Capital A/c Dr.	20,000	
	Premium payable on Redemption of Preference Shares A/c Dr.	2,000	
	To Preference Shareholders A/c		22,000
	(Being amount payable on redemption of Preference shares, at a Premium of 10%)		
3	Securities Premium A/c Dr.	2,000	
	To Premium payable on Redemption of Preference Shares A/c		2,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)		
4	Equity Share Capital A/c Dr.	16,000	
	Premium payable on Buyback A/c Dr.	16,000	

	To Equity Share buy back A/c (Being the amount due on buy-back)			32,000
5	Securities Premium A/c (6,400 – 2,000) General Reserve A/c (balancing figure)	Dr. Dr.	4,400 11,600	
	To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)			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 To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)	Dr. Dr.	22,000 32,000	54,000
8	General Reserve Account 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)	Dr.	36,000	36,000

(b) Fair value of an option = Rs. 56 – Rs. 50 = Rs. 6

Number of shares issued = 400 employees x 100 shares/employee = 40,000 shares

Fair value of ESOP = 40,000 shares x Rs. 6 = Rs. 2,40,000

Vesting period = 1 month

Expenses recognized in 2018-19 = Rs. 2,40,000

Date	Particulars		Rs.	Rs.
31.03.2019	Bank (40,000 shares x Rs. 50)	Dr.	20,00,000	
	Employees compensation expense A/c	Dr.	2,40,000	
	To Share Capital (40,000 shares x Rs.10)			4,00,000
	To Securities Premium (40,000 shares x Rs. 46)			18,40,000
	(Being option accepted by 400 employees & payment made @ Rs. 56 share)			
	Profit & Loss A/c	Dr.	2,40,000	
	To Employees compensation expense A/c (Being Employees compensation expense transferred to Profit & Loss A/c)			2,40,000

(c) Computation of liability of underwriters in respect of shares

	<i>(In shares)</i>		
	A	B	C
Gross liability (Total Issue of 30,00,000 equity shares) in agreed ratio of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	<u>(3,00,000)</u>	<u>(2,00,000)</u>	<u>(1,00,000)</u>
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	<u>(8,00,000)</u>	<u>(7,00,000)</u>	<u>(6,00,000)</u>
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	<u>(1,20,000)</u>	<u>(80,000)</u>	<u>2,00,000</u>
Net liability for underwriting shares	<u>2,80,000</u>	<u>20,000</u>	<u>Nil</u>

4. (a)

Form B – RA (Prescribed by IRDA)

General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2019

Fire and Marine Insurance Businesses

	<i>Schedule</i>	<i>Fire</i>	<i>Marine</i>
		<i>Current Year</i>	<i>Current Year</i>
		<i>Rs.</i>	<i>Rs.</i>
Premiums earned (net)	1	4,27,500	1,40,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		<u>4,27,500</u>	<u>1,40,000</u>
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000
Operating expenses related to Insurance business	4	70,000	50,000
Premium Deficiency		—	—
Total (B)		<u>1,92,000</u>	<u>1,58,000</u>
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account

Schedule –1

<i>Premiums earned (net)</i>	<i>Fire</i>	<i>Marine</i>
	<i>Current Year</i>	<i>Current Year</i>
	<i>Rs.</i>	<i>Rs.</i>
Premiums from direct business written	4,80,000	3,50,000
Less: Premium on reinsurance ceded	<u>(25,000)</u>	<u>(15,000)</u>

Total Premium earned	4,55,000	3,35,000
Less: Change in provision for unexpired risk	<u>(27,500)</u>	<u>(1,95,000)</u>
	<u>4,27,500</u>	<u>1,40,000</u>
Schedule – 2		
Claims incurred (net)	82,000	88,000
Schedule – 4		
Operating expenses related to insurance business		
Expenses of Management	70,000	50,000

Form B-PL

General Insurance Co. Ltd.

Profit and Loss Account for the year ended 31st March, 2019

<i>Particulars</i>	<i>Schedule</i>	<i>Current Year</i>	<i>Previous Year</i>
		<i>Rs.</i>	<i>Rs.</i>
Operating Profit/(Loss)			
(a) Fire Insurance		2,35,500	
(b) Marine Insurance		(18,000)	
(c) Miscellaneous Insurance		—	
Income From Investments			
Interest, Dividend & Rent–Gross		1,29,000*	
Other Income (To be specified)			
Total (A)		<u>3,46,500</u>	
Provisions (Other than taxation)			
Depreciation		9,000	
Other Expenses –Director’s Fee		<u>80,000</u>	
Total (B)		<u>89,000</u>	
Profit Before Tax		2,57,500	
Provision for Taxation		<u>99,138</u>	
Profit After Tax		<u>1,58,362</u>	

Working Notes:

		<i>Fire</i>	<i>Marine</i>
		<i>Rs.</i>	<i>Rs.</i>
1.	Claims under policies less reinsurance		
	Claims paid during the year	1,00,000	80,000
	Add: Outstanding on 31 st March, 2019	<u>10,000</u>	<u>15,000</u>
		1,10,000	95,000
	Less: Outstanding on 1 st April, 2018	<u>(28,000)</u>	<u>(7,000)</u>
		<u>82,000</u>	<u>88,000</u>
2.	Expenses of management		

* Interest and dividend in case can't be bifurcated between fire and marine thus taken to profit and loss account

	Expenses paid during the year	60,000	45,000
	Add: Outstanding on 31 st March, 2019	<u>10,000</u>	<u>5,000</u>
		<u>70,000</u>	<u>50,000</u>
3.	Premiums less reinsurance		
	Premiums received during the year	4,50,000	3,30,000
	Add: Outstanding on 31 st March, 2019	<u>30,000</u>	<u>20,000</u>
		4,80,000	3,50,000
	Less: Reinsurance premiums	<u>(25,000)</u>	<u>(15,000)</u>
		<u>4,55,000</u>	<u>3,35,000</u>

4. Reserve for unexpired risks is 50% of net premium for fire insurance and 100% of net premium for marine insurance. Reserve for unexpired risks for fire insurance = Rs. 4,55,000 x 50% = Rs. 2,27,500. Opening Balance in reserves for unexpired risk for fire insurance was Rs. 2,00,000. Hence, additional transfer to reserve for fire insurance in the year will be Rs. 27,500. On similar basis of calculation, the additional transfer to reserve for marine insurance will be Rs. 1,95,000

5. **Provision for taxation account**

		Rs.			Rs.
31.3.2019	To Bank A/c		1.4.2018	By Balance b/d	85,000
	(taxes paid)	60,000	31.3.2019	By P & L A/c (Bal Fig)	99,138
31.3.2019	To Balance c/d	1,24,138			
		<u>1,84,138</u>			<u>1,84,138</u>

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

		Rs. in 000
Paid up Equity Capital		100
Free Reserves		<u>500</u>
		600
Less: Deferred expenditure		<u>(200)</u>
	A	<u>400</u>
Investments		
In shares of subsidiaries and group companies		100
In debentures of subsidiaries and group companies		<u>100</u>
	B	<u>200</u>
10% of A		40
Excess of Investment over 10% of A (200-40)	C	160
Net Owned Fund [(A) - (C)] (400-160)		240

5. (a) The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				Rs.	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	<u>(75,000)</u>	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				
2011-12	(4,00,000)	<u>(1,20,000)</u>	(2,80,000)			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	<u>(1,50,000)</u>	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	<u>21,000</u>	<u>(21,000)</u>	21,000	21,000	
Balance		Nil	<u>(3,71,000)</u>			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		Nil	50,000			

2015-16	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(30,000)	30,000	(30,000)	12,000	2,44,000
Balance		Nil	100,000			
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		<u>(12,000)</u>	<u>12,000</u>			
Balance		33,000	1,17,000			

Working Note:

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(Rs.)	(Rs.)	(Rs.)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	<u>56,000</u>	<u>24,000</u>
		7,56,000	<u>3,24,000</u>
Less: Cost of investment		<u>(10,00,000)</u>	
Goodwill		<u>2,44,000</u>	

(b) 1. Capital Employed at the end of each year

	31.3.2017	31.3.2018	31.3.2019
	Rs.	Rs.	Rs.
Goodwill	20,00,000	16,00,000	12,00,000
Building and Machinery (Revaluation)	36,00,000	40,00,000	44,00,000
Inventory (Revalued)	24,00,000	28,00,000	32,00,000
Trade Receivables	40,000	3,20,000	8,80,000
Bank Balance	<u>2,40,000</u>	<u>4,00,000</u>	<u>8,00,000</u>
Total Assets	82,80,000	91,20,000	104,80,000
Less: Trade Payables	<u>(12,00,000)</u>	<u>(16,00,000)</u>	<u>(20,00,000)</u>
Closing Capital	70,80,000	75,20,000	84,80,000
Add: Opening Capital	<u>73,20,000</u>	<u>70,80,000</u>	<u>75,20,000</u>
Total	<u>1,44,00,000</u>	<u>1,46,00,000</u>	<u>1,60,00,000</u>
Average Capital	72,00,000	73,00,000	80,00,000

Since the goodwill has been purchased, it is taken as a part of Capital employed.

2. Valuation of Goodwill

(i) Future Maintainable Profit	31.3.2017	31.3.2018	31.3.2019
Net Profit as given	8,40,000	12,40,000	16,40,000
Less: Opening Balance	(2,40,000)	(2,80,000)	(3,20,000)
Adjustment for Valuation of Opening Inventory	-	(4,00,000)	(4,00,000)
Add: Adjustment for Valuation of closing inventory	4,00,000	4,00,000	4,00,000
Goodwill written off	-	4,00,000	4,00,000
Transferred to General Reserve	<u>4,00,000</u>	<u>4,00,000</u>	<u>4,00,000</u>
Future Maintainable Profit	14,00,000	17,60,000	21,20,000
Less: 12.50% Normal Return	<u>(9,00,000)</u>	<u>(9,12,500)</u>	<u>(10,00,000)</u>
(ii) Super Profit	5,00,000	8,47,500	11,20,000

(iii) Average Super Profit = Rs. (5,00,000+8,47,500+11,20,000) ÷ 3 = Rs. 8,22,500

(iv) Value of Goodwill at five years' purchase = Rs. 8,22,500 × 5 = Rs. 41,12,500.

6. (a) 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 overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

- (b) Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

	<i>Rs. in lakhs</i>
Interest on cash credits and overdraft :	(1800+70) = 1,870
Interest on Term Loan	(480+40) = 520
Income from bills purchased and discounted :	(700+36) = <u>736</u>
	<u>3,126</u>

OR

Investment in Debentures A/c

		<i>Rs. Lakh</i>			<i>Rs. Lakh</i>
June 1, 2018	To Bank	10.70	June 1, 2018	By Interest Recoverable (Note 1)	0.20
Nov 1, 2018	To Bank	5.45	Nov 1, 2018	By Interest Recoverable (Note 2)	0.05
Feb 28, 2019	To Interest Recoverable (Note 3)	0.30	Feb 28, 2019	By Bank	6.78
Feb 28, 2019	To Profit on disposal (Note 4)	0.12	Mar 31, 2019	By Balance c/d	9.54
		<u>16.57</u>			<u>16.57</u>

Working Notes:

1. $10,000 \times 100 \times \frac{12}{100} \times \frac{2}{12} = \text{Rs. } 0.20 \text{ Lakhs}$
2. $5,000 \times 100 \times \frac{12}{100} \times \frac{1}{12} = \text{Rs. } 0.05 \text{ Lakhs}$
3. $6,000 \times 100 \times \frac{12}{100} \times \frac{5}{12} = \text{Rs. } 0.30 \text{ Lakhs}$
4. Cost of investments (per unit) = $[(10,70,000 - 20,000) + (5,45,000 - 5,000)] / 15,000 \text{ units}$
 $= [10,50,000 + 5,40,000] / 15,000 = \text{Rs. } 106$

Cost of investments sold = $\text{Rs. } 106 \times 6,000 = \text{Rs. } 6,36,000$

Sale proceeds = $\text{Rs. } 6,78,000 - \text{Rs. } 30,000(\text{interest}) = \text{Rs. } 6,48,000$

Profit = $\text{Rs. } 6,48,000 - \text{Rs. } 6,36,000 = \text{Rs. } 12,000$

- (c) W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is Rs. 40 Lakhs and Preference share capital is Rs. 20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$W = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$X = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$Y = \frac{2}{3} \times \frac{10}{100} = \frac{1}{15}$$

$$Z = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$A = \frac{1}{3} \times \frac{30}{100} = \frac{1}{10}$$

$$B = \frac{1}{3} \times \frac{40}{100} = \frac{2}{15}$$

$$C = \frac{1}{3} \times \frac{20}{100} = \frac{1}{15}$$

$$D = \frac{1}{3} \times \frac{10}{100} = \frac{1}{30}$$

(d) Calculation of Purchase Consideration under Net Assets Method

	Rs.	Rs.
<i>Sundry assets</i>		
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	<u>4,14,000</u>	19,26,000
<i>Less: Liabilities:</i>		
10% Debentures	2,00,000	
Trade payables	1,40,000	
Bank overdraft	50,000	
Unrecorded liability	<u>25,000</u>	<u>(4,15,000)</u>
Purchase consideration		<u>15,11,000</u>