

**MOCK TEST PAPER 1**  
**INTERMEDIATE : 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) On the basis of provisions of AS 18 'Related Party Disclosures':  
Identify the related parties in the following cases:  
X Limited holds 60% shares of Y Limited  
Y Limited holds 55% shares of W Limited  
Z Limited holds 35% shares of W Limited
- (ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2022. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.
- (b) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31<sup>st</sup> March, 2022:
- (i) On 31<sup>st</sup> December, 2021 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31<sup>st</sup> March, 2022.
- (ii) On 10<sup>th</sup> January, 2022, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11<sup>th</sup> April, 2022.
- (iii) On 21<sup>st</sup> March, 2022 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12<sup>th</sup> April, 2022.
- You are required to advise the accountant of Tonk Tanners when amount is to be recognised as revenue in 2021-2022 in above cases in the context of AS 9.
- (c) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(₹ in Crore)

| Particulars     | A    | B  | C  | D   | E  | Total |
|-----------------|------|----|----|-----|----|-------|
| Segment Assets  | 40   | 15 | 10 | 10  | 5  | 80    |
| Segment Results | (95) | 5  | 5  | (5) | 15 | (75)  |
| Segment Revenue | 310  | 40 | 30 | 40  | 30 | 450   |

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

- (d) Som Ltd. agreed to takeover Dove Ltd. on 1<sup>st</sup> April, 2022. The terms and conditions of takeover were as follows:
- Som Ltd. issued 56,000 equity shares of ₹100 each at a premium of ₹10 per share to the equity shareholders of Dove Ltd.
  - Cash payment of ₹ 1,00,000 was made to equity shareholders of Dove Ltd.
  - 20,000 fully paid preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate the amount of purchase consideration as per provisions of AS 14.

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

- 2 Read, Write and Add give you the following Balance Sheet as on 31st March, 2022:

| Equity and Liabilities    | ₹             | Assets                           | ₹             |
|---------------------------|---------------|----------------------------------|---------------|
| Read's Loan               | 15,000        | Plant and Machinery at cost      | 30,000        |
| Capital Accounts:         |               | Fixtures and Fittings            | 2,000         |
| Read       30,000         |               | Stock                            | 10,400        |
| Write      10,000         |               | Debtors                   18,400 |               |
| Add <u>2,000</u>          | 42,000        | Less: Provision <u>(400)</u>     | 18,000        |
| Sundry Creditors          | 17,800        | Joint Life Policy                | 15,000        |
| Loan on Hypothecation of  |               | Patents and Trademarks           | 10,000        |
| Stock                     | 6,200         | Cash at Bank                     | 8,000         |
| Joint Life Policy Reserve | 12,400        |                                  |               |
|                           | <u>93,400</u> |                                  | <u>93,400</u> |

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2022 and you are given the following information:

- Add had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.  
The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Add's loan and ₹ 300 as interest thereon.
- One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.
- The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- The remaining assets realized the following amount: ₹
 

|                       |        |
|-----------------------|--------|
| Plant and Machinery   | 17,000 |
| Fixtures and Fittings | 1,000  |
| Stock                 | 9,000  |
| Debtors               | 16,500 |

 Patents 50% of their book value.
- The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
- The expenses of realization amounted to ₹ 2,300.

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form.

**(20 Marks)**

3. (a) A Ltd. gives the following information on 31<sup>st</sup> March, 2022:

|                                     | ₹        |
|-------------------------------------|----------|
| 8,000 Equity shares of ₹ 100 each   | 8,00,000 |
| 10% Debentures                      | 4,00,000 |
| Loans                               | 1,60,000 |
| Trade payables                      | 3,20,000 |
| General Reserve                     | 80,000   |
| Building                            | 3,40,000 |
| Machinery                           | 6,40,000 |
| Inventory                           | 2,20,000 |
| Trade receivables                   | 2,60,000 |
| Bank                                | 1,36,000 |
| Patent                              | 1,30,000 |
| Profit & Loss account (Dr. balance) | 34,000   |

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- (2) B Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31<sup>st</sup> March, 2022 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31<sup>st</sup> March, 2022. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the Realisation A/c, Bank A/c, B Ltd. A/c and Equity shareholders A/c to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1<sup>st</sup> April, 2022 after the takeover from the available information.

- (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 ₹ 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.

**(16 + 4 = 20 Marks)**

4. (a) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31<sup>st</sup> March, 2022:

| Particulars   | ₹         | ₹         |
|---|-----------|-----------|
| Equity Share Capital (shares of ₹ 10 each fully paid) |           | 30,00,000 |
| Reserves & Surplus                                    |           |           |
| General Reserve                                       | 32,50,000 |           |
| Security Premium Account                              | 6,00,000  |           |

|                       |                 |           |
|-----------------------|-----------------|-----------|
| Profit & Loss Account | 4,30,000        |           |
| Revaluation Reserve   | <u>6,20,000</u> | 49,00,000 |
| Loan Funds            |                 | 42,00,000 |

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

- (b) While closing its books of account on 31<sup>st</sup> March, 2022, a Non-Banking Finance Company has classified its advances as follows:

|                                      | ₹ in lakhs |
|--------------------------------------|------------|
| Standard assets                      | 13,400     |
| Sub-standard assets                  | 670        |
| Secured portions of doubtful debts:  |            |
| – Up to one year                     | 160        |
| – one year to three years            | 45         |
| – more than three years              | 20         |
| Unsecured portions of doubtful debts | 48         |
| Loss assets                          | 24         |

You are required to calculate the amount of provision, which must be made against the advances as per the Non-Banking Financial Company –Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016. **(15+5 = 20 Marks)**

5. On 31<sup>st</sup> March, 2022 H Ltd. and its subsidiary S Ltd. give the following information:

|   | H Ltd.    | S Ltd.   |
|---|-----------|----------|
|   | ₹         | ₹        |
| Shareholders' Fund:                                   |           |          |
| Equity shares of ₹ 10 each                            | 13,40,000 | 2,40,000 |
| Reserves and Surplus                                  | 4,80,000  | 1,80,000 |
| Profit & Loss Account                                 | 2,40,000  | 60,000   |
| Secured Loans:  |           |          |
| 12% Debentures  | 1,00,000  | -        |
| Current Liabilities:                                  |           |          |
| Creditors   | 2,00,000  | 1,22,000 |
| Bank Overdraft  | 1,00,000  | -        |
| Bills Payable   | 60,000    | 14,800   |
| Property, Plant & Equipment:                          |           |          |
| Machinery   | 7,20,000  | 2,16,000 |
| Furniture   | 3,60,000  | 40,800   |
| Investments:  |           |          |
| Investments in S Ltd.<br>(19,200 shares at ₹ 20 each) | 3,84,000  | -        |
| Current Assets:                                       |           |          |
| Inventories   | 6,00,000  | 2,00,000 |

|                  |          |        |
|------------------|----------|--------|
| Debtors          | 3,00,000 | 90,000 |
| Bill Receivables | 1,00,000 | 30,000 |
| Cash at Bank     | 56,000   | 40,000 |

The following information is also provided to you:

- (a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2021, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.
- (b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2021, for the purpose of fixing the price of its shares. (Rates of depreciation computed based on useful lives: Machinery 10%, Furniture 15%).
- (c) On 31st March, 2022, Bills payable of ₹ 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2022. **(20 Marks)**

6. (a) Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2022 and needs your expert advice on the following issues in line with the provisions of AS 29:
  - (i) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.
  - (ii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% is to be paid on the value of delayed/lost consignment. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed the compensation for the consignment of goods worth ₹ 30 lakhs which was in transit.
- (b) On 1st April, 2021 a company had 6,00,000 equity shares of ₹ 10 each (₹ 5 paid up by all shareholders). On 1st September, 2021 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, 2022 was ₹ 21,96,000 after considering dividend ₹ 3,40,000 on preference shares. You are required to compute Basic EPS for the year ended 31st March, 2022 as per Accounting Standard 20 "Earnings Per Share".

**OR**

X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya". X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. How should X Ltd. account for these legal costs incurred relating to the two trademarks?

- (c) State with reason whether the following cash credit accounts are NPA or not:

|                  | Case-1    | Case-2    |
|------------------|-----------|-----------|
|                  | ₹         | ₹         |
| Sanctioned limit | 60,00,000 | 45,00,000 |

|  |           |           |
|--|-----------|-----------|
| Drawing power  | 56,00,000 | 42,00,000 |
| Amount outstanding continuously 01-01-22 to 31-03-22 | 48,00,000 | 30,00,000 |
| Total interest debited for the above period          | 3,84,000  | 2,40,000  |
| Total credits for the above period                   | Nil       | 3,20,000  |

- (d) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2021, it granted 2,500 employees stock options at ₹ 50 per share, when the market price was ₹ 140 per share. The options were to be exercised between 1-10-2021 to 31-03-2022. The employees exercised their options for 2,400 shares only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

You are to required to pass the necessary Journal Entries (including narration) for the year ended 31-03-2022, with regard to employees' stock options and give working notes also.

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

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**ANSWERS**

1. (a) (i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.
- (ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. ie. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party Transactions, is wrong.
- (b) (i) **Shoes sent to Mohan Shoes (consignee) for consignment sale**  
In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.  
In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2021-2022, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.
- (ii) **Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date**  
For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2021-2022. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.
- (iii) **Delivery is delayed at buyer's request**  
On 21<sup>st</sup> March, 2022, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2021-2022 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.
- (c) As per para 27 of AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:
- (i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- (ii) Its segment **result** whether profit or loss is 10% or more of:
- (1) The combined result of all segments in profit; or
- (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment **assets** are 10% or more of the total assets of all segments.
- Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even

if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

- (a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.
- (b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

- (d) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

**Computation of Purchase Consideration:**

|  |           | ₹                |
|--|-----------|------------------|
| (a) Preference Shares:   |           |                  |
| 20,000 Preference shares in Som Ltd. @ ₹ 70 per share                    | 14,00,000 |                  |
| (b) Cash   |           | 1,00,000         |
| (c) Equity shares: 56,000 equity shares in Som Ltd.<br>@ ₹ 110 per share |           | <u>61,60,000</u> |
|  |           | <u>76,60,000</u> |

2.

**Realisation Account**

|                                   |               | ₹   |              |               | ₹ |
|-----------------------------------|---------------|---|--------------|---------------|---|
| To Plant and machinery            | 30,000        | By Provision for doubtful debts           |              | 400           |   |
| To Fixtures and fittings          | 2,000         | By Loan on hypothecation of stock (W.N.3) |              | 3,000         |   |
| To Stock                          | 10,400        | By Creditors (W.N.2)                      |              | 500           |   |
| To Debtors                        | 18,400        | By Joint Life Policy A/c (W.N.4)          |              | 12,900        |   |
| To Patents and Trademarks (W.N.5) | 5,500         | By Bank                                   |              |               |   |
| To Bank                           | 2,300         | Plant and machinery                       | 17,000       |               |   |
|                                   |               | Fixtures and fittings                     | 1,000        |               |   |
|                                   |               | Stock                                     | 9,000        |               |   |
|                                   |               | Debtors                                   | 16,500       |               |   |
|                                   |               | Patents and Trademarks                    | <u>2,000</u> | 45,500        |   |
|                                   |               | By Partners' Capital Accounts             |              |               |   |
|                                   |               | Read                                      | 2,800        |               |   |
|                                   |               | Write                                     | 1,400        |               |   |
|                                   |               | Add                                       | <u>2,100</u> | <u>6,300</u>  |   |
|                                   | <u>68,600</u> |   |              | <u>68,600</u> |   |

### Bank Account

|                      | ₹      |                                   | ₹      |
|----------------------|--------|-----------------------------------|--------|
| To Balance b/d       | 8,000  | By Add's Capital A/c- drawings    | 5,300  |
| To Joint Life Policy | 15,500 | By Loan on hypothecation of stock | 3,200  |
| To Realisation A/c   | 45,500 |                                   |        |
| To Add's Capital A/c | 5,400  | By Creditors                      | 12,800 |
|                      |        | By Realisation A/c (expenses)     | 2,300  |
|                      |        | By Read's Loan A/c                | 15,000 |
|                      |        | By Read's Capital A/c             | 27,200 |
|                      |        | By Write's Capital A/c            | 8,600  |
|                      | 74,400 |                                   | 74,400 |

### Partners' Capital Accounts

|                     | Read   | Write  | Add   |                        | Read   | Write  | Add   |
|---------------------|--------|--------|-------|------------------------|--------|--------|-------|
|                     | ₹      | ₹      | ₹     |                        | ₹      | ₹      | ₹     |
| To Bank             |        |        | 5,300 | By Balance b/d         | 30,000 | 10,000 | 2,000 |
| To Realisation A/c  | 2,800  | 1,400  | 2,100 |                        |        |        |       |
| To Bank (Bal. Fig.) |        |        |       | By Bank A/c (bal.fig.) |        |        | 5,400 |
|                     | 27,200 | 8,600  |       |                        |        |        |       |
|                     | 30,000 | 10,000 | 7,400 |                        | 30,000 | 10,000 | 7,400 |

#### Working Notes:

##### 1. Read's Loan Account

|             | ₹      |                | ₹      |
|-------------|--------|----------------|--------|
| To Bank A/c | 15,000 | By Balance b/d | 15,000 |
|             | 15,000 |                | 15,000 |

##### 2. Sundry Creditors Account

|                               | ₹      |                | ₹      |
|-------------------------------|--------|----------------|--------|
| To Patents and Trademarks A/c | 4,500  | By Balance b/d | 17,800 |
| To Realisation A/c            | 500    |                |        |
| To Bank A/c                   | 12,800 |                |        |
|                               | 17,800 |                | 17,800 |

##### 3. Loan on Hypothecation of Stock Account

|                    | ₹            |                | ₹               |
|--------------------|--------------|----------------|-----------------|
| To Realisation A/c | 3,000        | By Balance b/d | 6,200           |
| To Bank A/c        | <u>3,200</u> |                | <u>        </u> |
|                    | <u>6,200</u> |                | <u>6,200</u>    |

##### 4. Joint Life Policy Account

|                | ₹      |                                  | ₹      |
|----------------|--------|----------------------------------|--------|
| To Balance b/d | 15,000 | By Joint Life Policy Reserve A/c | 12,400 |

|                    |               |                              |               |
|--------------------|---------------|------------------------------|---------------|
| To Realisation A/c | 12,900        | By Bank A/c (10,200 + 5,300) | 15,500        |
|                    | <u>27,900</u> |                              | <u>27,900</u> |

5. **Patents and Trademarks Account**

|                | ₹             |                               | ₹             |
|----------------|---------------|-------------------------------|---------------|
| To Balance b/d | 10,000        | By Creditors A/c              | 4,500         |
|                |               | By Realization A/c            | 1,500         |
|                |               | By Realization A/c (bal.fig.) | <u>4,000</u>  |
|                | <u>10,000</u> |                               | <u>10,000</u> |

3. (a) **Books of A Limited**  
**Realization Account**

|                      | ₹                |                               | ₹                |
|----------------------|------------------|-------------------------------|------------------|
| To Building          | 3,40,000         | By Trade payables             | 3,20,000         |
| To Machinery         | 6,40,000         | By B Ltd.                     | 12,10,000        |
| To Inventory         | 2,20,000         | By Equity Shareholders (Loss) | 76,000           |
| To Trade receivables | 2,60,000         |                               |                  |
| To Patent            | 1,30,000         |                               |                  |
| To Bank (Exp.)       | <u>16,000</u>    |                               |                  |
|                      | <u>16,06,000</u> |                               | <u>16,06,000</u> |

**Bank Account**

|                |                 |                        |                 |
|----------------|-----------------|------------------------|-----------------|
| To Balance b/d | 1,36,000        | By Realization (Exp.)  | 16,000          |
| To B Ltd.      | 6,00,000        | By 10% Debentures      | 4,00,000        |
|                |                 | By Loans               | 1,60,000        |
|                |                 | By Equity shareholders | <u>1,60,000</u> |
|                | <u>7,36,000</u> |                        | <u>7,36,000</u> |

**B Ltd. Account**

|                    |                  |  |                  |
|--------------------|------------------|--|------------------|
| To Realisation A/c | 12,10,000        | By Bank  | 6,00,000         |
|                    |                  | By Equity share in B Ltd. (4,880 shares at ₹ 125 each) | <u>6,10,000</u>  |
|                    | <u>12,10,000</u> |  | <u>12,10,000</u> |

**Equity Share Holders Account**

|                            |                 |                         |                 |
|----------------------------|-----------------|-------------------------|-----------------|
| To Realization Account     | 76,000          | By Equity share capital | 8,00,000        |
| To Profit & Loss A/c (Dr.) | 34,000          | By General reserve      | 80,000          |
| To Equity shares in B Ltd. | 6,10,000        |                         |                 |
| To Bank                    | <u>1,60,000</u> |                         |                 |
|                            | <u>8,80,000</u> |                         | <u>8,80,000</u> |

**Balance Sheet of B Ltd. as at 1<sup>st</sup> April, 2021 (An extract)<sup>1</sup>**

|          | Particulars                            | Notes | ₹                |
|----------|--|-------|------------------|
|          | <b>Equity and Liabilities</b>          |       |                  |
| <b>1</b> | <b>Shareholders' funds</b>             |       |                  |
| a        | Share capital                          | 1     | 4,88,000         |
| b        | Reserves and Surplus                   | 2     | 1,07,000         |
| <b>2</b> | <b>Current liabilities</b>             |       |                  |
| a        | Trade Payables                         | 3     | 2,80,000         |
| b        | Short term Borrowings (Bank overdraft) |       | 6,00,000         |
|          | <b>Total</b>                           |       | <u>14,75,000</u> |
|          | <b>Assets</b>                          |       |                  |
| <b>1</b> | <b>Non-current assets</b>              |       |                  |
|          | Property, Plant and Equipment          | 4     | 8,82,000         |
|          | Intangible assets                      | 5     | 2,16,000         |
| <b>2</b> | <b>Current assets</b>                  |       |                  |
| a        | Inventories                            | 6     | 1,83,000         |
| b        | Trade receivables                      | 7     | 1,94,000         |
|          | <b>Total</b>                           |       | <u>14,75,000</u> |

**Notes to Accounts**

|          |   |                 | ₹               |
|----------|---|-----------------|-----------------|
| <b>1</b> | <b>Share Capital</b>  |                 |                 |
|          | Equity share capital  |                 |                 |
|          | 4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash) |                 | <u>4,88,000</u> |
|          | <b>Total</b>  |                 | <u>4,88,000</u> |
| <b>2</b> | <b>Reserves and Surplus (an extract)</b>  |                 |                 |
|          | Securities Premium  |                 | 1,22,000        |
|          | Profit and loss account   | .....           |                 |
|          | Less: Unrealized profit   | <u>(15,000)</u> | <u>(15,000)</u> |
|          | <b>Total</b>  |                 | <u>1,07,000</u> |
| <b>3</b> | <b>Trade payables</b>   |                 |                 |
|          | Opening balance   | 3,20,000        |                 |
|          | Less: Inter-company transaction cancelled upon amalgamation                                   | <u>(40,000)</u> | <u>2,80,000</u> |
| <b>4</b> | <b>Property, Plant and Equipment</b>  |                 |                 |
|          | Buildings   |                 | 3,06,000        |
|          | Machinery   |                 | 5,76,000        |
|          | <b>Total</b>  |                 | <u>8,82,000</u> |
| <b>5</b> | <b>Intangible assets</b>  |                 |                 |
|          | Goodwill  |                 | 2,16,000        |

<sup>1</sup> In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

|  |          |          |
|--|----------|----------|
| <b>6 Inventories</b>                                       |          |          |
| Opening balance  | 1,98,000 |          |
| Less: Cancellation of profit upon amalgamation             | (15,000) | 1,83,000 |
| <b>7 Trade receivables</b>                                 |          |          |
| Opening balance  | 2,34,000 |          |
| Less: Intercompany transaction cancelled upon amalgamation | (40,000) | 1,94,000 |

**Working Notes:**

|   |                   |
|---|-------------------|
| <b>1. Valuation of Goodwill</b>                 | ₹                 |
| Average profit                                  | 1,24,400          |
| Less: 8% of ₹ 8,80,000                          | <u>(70,400)</u>   |
| Super profit                                    | <u>54,000</u>     |
| Value of Goodwill = 54,000 x 4                  | <u>2,16,000</u>   |
| <b>2. Net Assets for purchase consideration</b> |                   |
| Goodwill as valued in W.N.1                     | 2,16,000          |
| Building  | 3,06,000          |
| Machinery                                       | 5,76,000          |
| Inventory                                       | 1,98,000          |
| Trade receivables                               | <u>2,34,000</u>   |
| Total Assets                                    | 15,30,000         |
| Less: Trade payables                            | <u>(3,20,000)</u> |
| Net Assets                                      | <u>12,10,000</u>  |

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted  $6,10,000/125 = 4,880$  shares.

|   |                 |
|---|-----------------|
| <b>3. Unrealized Profit on Inventory</b>  | ₹               |
| The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$ | 25,000          |
| As B Ltd. purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.                                 | <u>(10,000)</u> |
| Amount of unrealized profit   | <u>15,000</u>   |

**(b) 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 =  $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

**4. (a) Debt Equity Ratio Test**

|     | Particulars   | ₹                                    |
|-----|---|--------------------------------------|
| (a) | Loan funds  | 42,00,000                            |
| (b) | Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)                  | 21,00,000                            |
| (c) | Present equity shareholders fund (₹ in crores)  | 72,80,000                            |
| (d) | Future equity shareholder fund (₹ in crores) (See Note 2)   | 59,85,000<br>(72,80,000-12,95,000)   |
| (e) | Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)                       | 38,85,000 (by simultaneous equation) |
| (f) | Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2) | 1,29,500 (by simultaneous equation)  |

**Working Note:**

## 1. Shareholders' funds

| Particulars                                  | ₹                |
|--|------------------|
| Paid up capital                              | 30,00,000        |
| Free reserves (32,50,000 +6,00,000+4,30,000) | <u>42,80,000</u> |
|  | <u>72,80,000</u> |

## 2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

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

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

$$(72,80,000 - x) - 21,00,000 = y \quad (1)$$

$$\text{Since } 51,80,000 - x = y$$

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

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

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

$$3x = y \quad (2)$$

$$x = ₹ 12,95,000 \text{ crores and } y = ₹ 38,85,000 \text{ crores}$$

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

|                                      | Amount<br>₹ in lakhs | Percentage of<br>provision | Provision<br>₹ in lakhs |
|--------------------------------------|----------------------|----------------------------|-------------------------|
| Standard assets                      | 13,400               | .40                        | 53.60                   |
| Sub-standard assets                  | 670                  | 10                         | 670                     |
| Secured portions of doubtful debts   |                      |                            |                         |
| –up to one year                      | 160                  | 20                         | 32                      |
| –one year to three years             | 45                   | 30                         | 13.5                    |
| –more than three years               | 20                   | 50                         | 10                      |
| Unsecured portions of doubtful debts | 48                   | 100                        | 48                      |
| Loss assets                          | 24                   | 100                        | 24                      |
|                                      |                      |                            | <u>851.10</u>           |

**5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2022**

| Particulars                                | Note No. | (₹)       |
|--|----------|-----------|
| <b>I. Equity and Liabilities</b>           |          |           |
| (1) Shareholder's Funds                    |          |           |
| (a) Share Capital                          | 1        | 13,40,000 |
| (b) Reserves and Surplus                   | 2        | 8,27,040  |
| (2) Minority Interest                      |          | 1,15,560  |
| (3) Non-Current Liabilities                |          |           |
| (a) 12% Debentures                         |          | 1,00,000  |
| (4) Current Liabilities                    |          |           |
| (a) Trade Payables                         | 3        | 3,84,800  |
| (b) Short term Borrowings (Bank overdraft) |          | 1,00,000  |
| Total                                      |          | 28,67,400 |
| <b>II. Assets</b>                          |          |           |
| (1) Non-current assets                     |          |           |
| (a)  |          |           |
| (i) Property, Plant and Equipment          | 4        | 14,34,600 |
| (ii) Intangible assets                     | 5        | 28,800    |
| (2) Current assets                         |          |           |
| (a) Inventory (6,00,000+2,00,000)          |          | 8,00,000  |
| (b) Trade Receivables                      | 6        | 5,08,000  |
| (c) Cash and Cash equivalents              |          | 96,000    |
| Total                                      |          | 28,67,400 |

## Notes to Accounts

|    |  | ₹               |                 |
|----|--|-----------------|-----------------|
| 1. | Share Capital  |                 |                 |
|    | Equity share capital   |                 | 13,40,000       |
|    | 1,34,000 shares of ₹ 10 each fully paid up                     |                 |                 |
| 2. | Reserves and Surplus   |                 |                 |
|    | Reserves   | 4,80,000        |                 |
|    | Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3) | <u>96,000</u>   | 5,76,000        |
|    | Profit and Loss Account  | 2,40,000        |                 |
|    | Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)  | <u>11,040</u>   | <u>2,51,040</u> |
|    |  |                 | <u>8,27,040</u> |
| 3. | Trade Payables   |                 |                 |
|    | Creditors  |                 |                 |
|    | H Ltd.   | 2,00,000        |                 |
|    | S Ltd.   | <u>1,22,000</u> | 3,22,000        |
|    | Bills Payables   |                 |                 |
|    | H Ltd.   | 60,000          |                 |
|    | S Ltd.   | <u>14,800</u>   | <u>74,800</u>   |
|    |  |                 | 3,96,800        |
|    | Less: Mutual Owings  | <u>(12,000)</u> | 3,84,800        |
| 4. | Property Plant and Equipment                                   |                 |                 |
|    | Machinery  |                 |                 |
|    | H. Ltd.  |                 | 7,20,000        |
|    | S Ltd.   | 2,40,000        |                 |
|    | Add: Appreciation  | <u>1,20,000</u> |                 |
|    |  | 3,60,000        |                 |
|    | Less: Depreciation (3,60,000 X 10%)                            | <u>(36,000)</u> | 3,24,000        |
|    | Furniture  |                 |                 |
|    | H. Ltd.  |                 | 3,60,000        |
|    | S Ltd.   | 48,000          |                 |
|    | Less: Decrease in value  | <u>(12,000)</u> |                 |
|    |  | 36,000          |                 |
|    | Less: Depreciation (36,000 X 15%)                              | <u>5,400</u>    | <u>30,600</u>   |
|    |  |                 | 14,34,600       |
| 5. | Intangible assets  |                 |                 |
|    | Goodwill [WN 6]  |                 | 28,800          |
| 6. | Trade receivables  |                 |                 |
|    | Debtors  |                 |                 |
|    | H Ltd.   | 3,00,000        |                 |
|    | S Ltd.   | <u>90,000</u>   | 3,90,000        |
|    | Bills Receivables  |                 |                 |
|    | H Ltd.   | 1,00,000        |                 |

|                     |               |                 |          |
|---------------------|---------------|-----------------|----------|
| S Ltd.              | <u>30,000</u> | <u>1,30,000</u> |          |
| Less: Mutual Owings |               | 5,20,000        |          |
|                     |               | <u>(12,000)</u> | 5,08,000 |

**Working Notes:**

|   |                 |
|---|-----------------|
| 1. Pre-acquisition profits and reserves of S Ltd.   | ₹               |
| Reserves  | 60,000          |
| Profit and Loss Account   | <u>36,000</u>   |
|   | <u>96,000</u>   |
| H Ltd.'s = $\frac{4}{5}$ (or 80%) $\times$ 96,000   | 76,800          |
| Minority Interest = $\frac{1}{5}$ (or 20%) $\times$ 96,000  | 19,200          |
| 2. Profit on revaluation of assets of S Ltd.  |                 |
| Profit on Machinery ₹ (3,60,000 – 2,40,000)   | 1,20,000        |
| Less: Loss on Furniture ₹(48,000 – 36,000)  | <u>(12,000)</u> |
| Net Profit on revaluation   | <u>1,08,000</u> |
| H Ltd.'s share $\frac{4}{5} \times 1,08,000$  | 86,400          |
| Minority Interest $\frac{1}{5} \times 1,08,000$   | 21,600          |
| 3. Post-acquisition reserves of S Ltd.  |                 |
| Total reserves  | 1,80,000        |
| Less: Pre- acquisition reserves   | <u>(60,000)</u> |
| Post-acquisition reserves   | <u>1,20,000</u> |
| H Ltd.'s share $\frac{4}{5} \times 1,20,000$  | 96,000          |
| Minority interest $\frac{1}{5} \times 1,20,000$   | 24,000          |
| 4. Post -acquisition profits of S Ltd.  |                 |
| Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 60,000 – 36,000) | 24,000          |
| Add: Excess depreciation charged on furniture @ 15%<br>on ₹ 12,000 i.e. (48,000 – 36,000)                 | <u>1,800</u>    |
|   | 25,800          |
| Less: Under depreciation on machinery @ 10%<br>on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)                   | <u>(12,000)</u> |
| Adjusted post-acquisition profits   | <u>13,800</u>   |
| H Ltd.'s share $\frac{4}{5} \times 13,800$  | 11,040          |
| Minority Interest $\frac{1}{5} \times 13,800$   | 2,760           |
| 5. Minority Interest  |                 |
| Paid-up value of (24,000 – 19,200) = 4,800 shares held by outsiders i.e. 2,40,000 X 20%                   | 48,000          |
| Add: 1/5th share of pre-acquisition profits and reserves  | 19,200          |
| 1/5th share of profit on revaluation  | 21,600          |
| 1/5th share of post-acquisition reserves  | 24,000          |
| 1/5th share of post-acquisition profit  | <u>2,760</u>    |
|   | <u>1,15,560</u> |

|  |         |                 |
|--|---------|-----------------|
| 6. Cost of Control or Goodwill                             |         |                 |
| Price paid by H Ltd. for 19,200 shares                     | (A)     | 3,84,000        |
| Less: Intrinsic value of the shares                        |         |                 |
| Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80% |         | 1,92,000        |
| Add: 4/5th share of pre-acquisition profits and reserves   |         | 76,800          |
| 4/5th share of profit on the revaluation                   |         | <u>86,400</u>   |
| Intrinsic value of shares on the date of acquisition       | (B)     | <u>3,55,200</u> |
| Cost of control or Goodwill                                | (A – B) | 28,800          |

6. (a) (i) As per AS 29, an obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

In the given case, there are 75% chances that the penalty may not be levied. Accordingly, Saharsh Ltd. should not make the provision for penalty.

However, a provision should be made for remaining 50% fees of the lawyer in the financial statements of financial year 2021-22.

- (ii) Loss due to accident ₹ 30,00,000  
Insurance claim receivable by company = ₹ 30,00,000 x 90% = ₹ 27,00,000  
Loss to be recognised in the books for 2021-22 ₹ 3,00,000  
Insurance claim receivable to be recorded in the books ₹ 27,00,000  
Compensation claim by dealer against company to be provided for in the books  
= ₹ 30,00,000 x 15% = ₹ 4,50,000

- (b) 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 |
|--------------------------------------|----------------------|-----------------------|---------------------------------------|
|                                      | ₹                    | ₹                     | ₹                                     |
| 1.4.2021                             | 6,00,000             | 5                     | 6,00,000 x 5/10 x 5/12 = 1,25,000     |
| 1.9.2021                             | 5,40,000             | 10                    | 5,40,000 x 7/12 = 3,15,000            |
| 1.9.2021                             | 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>                       |

**OR**

As per para 59 of AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance or can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs must be recognised as an expense.

(c)

|   | Case 1    | Case 2    |
|---|-----------|-----------|
|   | ₹         | ₹         |
| Sanctioned limit  | 60,00,000 | 45,00,000 |
| Drawing power   | 56,00,000 | 42,00,000 |
| Amount outstanding continuously from 1.01.2022 to 31.03.2022  | 48,00,000 | 30,00,000 |
| Total interest debited  | 3,84,000  | 2,40,000  |
| Total credits   | -         | 320,000   |
| Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days. | No        | Yes       |
|   | NPA       | NOT NPA   |

(d)

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

|                    |  |     | ₹        | ₹        |
|--------------------|--|-----|----------|----------|
| 1.10.21 to 31.3.22 | Bank A/c   | Dr. | 1,20,000 |          |
|                    | Employee compensation expense A/c  | Dr. | 2,16,000 |          |
|                    | To Equity share capital A/c  |     |          | 24,000   |
|                    | To Securities premium A/c  |     |          | 3,12,000 |
|                    | (Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan) |     |          |          |
| 31.3.22            | Profit and Loss A/c  | Dr. | 2,16,000 |          |
|                    | To Employee compensation expense A/c   |     |          | 2,16,000 |
|                    | (Being transfer of employee compensation expenses to Profit and Loss Account)  |     |          |          |

No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st August, 2021.

**Working Note:**

Market Price = ₹ 140 per share and stock option price = 50, Hence, the difference  $140 - 50 = ₹ 90$  per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 2,400 shares. Hence, Employee compensation expenses will be  $2,400 \text{ shares} \times ₹ 90 = ₹ 2,16,000$