

## PAPER – 5: ADVANCED ACCOUNTING

Question No.1 is compulsory.

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

Working notes should form part of the respective answers.

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

### Question 1

(a) The following data is provided for M/s. Raj Construction Co.

- (i) Contract Price - ₹ 85 lakhs
- (ii) Materials issued - ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused at the end of the period.
- (iii) Labour Expenses for workers engaged at site - ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid)
- (iv) Specific Contract Costs - ₹ 5 Lakhs
- (v) Sub-Contract Costs for work executed - ₹ 7 Lakhs, Advances paid to sub-contractors - ₹ 4 Lakhs
- (vi) Further Cost estimated to be incurred to complete the contract - ₹ 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

(b) Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:

- (i) If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.
- (ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?
- (iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?

- (c) *Surya Limited follows the financial year from April to March. It has provided the following information.*
- (i) *A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of ₹ 5 lakhs.*
  - (ii) *Company sends a proposal to sell an immovable property for ₹ 45 lakhs in March 2021. The book value of the property is ₹ 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.*
  - (iii) *The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was ₹ 50 lakhs.*
  - (iv) *Theft of cash amounting to ₹ 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.*

*Keeping in view the provisions of AS-4, you are required to state with reasons whether the above events are to be treated as Contingencies, Adjusting Events or Non-Adjusting Events occurring after Balance Sheet date.*

- (d) (i) *Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.*
- (ii) *Shri Bhanu a relative of key management personnel received remuneration of ₹ 3,50,000 for his services in the company for the period from 1<sup>st</sup> April, 2020 to 30th June, 2020. On 1<sup>st</sup> July, 2020, he left the service.*

*You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18- Related Party Disclosures.*

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

**Answer**

**(a) Computation of contract cost**

	₹ Lakh	₹ Lakh
Material cost incurred on the contract (net of closing stock)	21-4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		<u>7</u>

Cost incurred (till date)		45
Add: further cost to be incurred		<u>35</u>
Total contract cost		<u>80</u>

**Percentage of completion** = Cost incurred till date/Estimated total cost  
= ₹ 45,00,000/₹ 80,00,000  
= 56.25%

**Contract revenue and costs to be recognized**

Contract revenue (₹ 85,00,000x56.25%) = ₹ 47,81,250

Contract costs = ₹ 45,00,000

**(b) (i) As per AS 24, a discontinuing operation is a component of an enterprise:**

- (a) that the enterprise, pursuant to a single plan, is:
- (i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
  - (ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
  - (iii) terminating through abandonment; and
- (b) that represents a separate major line of business or geographical area of operations; and
- (c) that can be distinguished operationally and for financial reporting purposes.

Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

- (a) Gradual or evolutionary phasing out of a product line or class of service;
- (b) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (c) Closing of a facility to achieve productivity improvements or other cost savings.

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the companies' strategic plan has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

- (ii) No, the resolution is salient about stoppage of the Car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.

Hence, AS 24 will not be applicable and it cannot be considered as Discontinuing operations.

- (iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.

Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operations as per AS-24.

- (c) (i) Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 5th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. However, it may be disclosed with the nature of contingency, being a contingent liability.

This event does not pertain to conditions on the balance sheet date. Hence, it will have no effect on financial statement and will be a non-adjusting event.

- (ii) In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2021. There was just a proposal before 31st March, 2021 and hence sale cannot be shown in the financial statements for the year ended 31st March, 2021.

Sale of immovable property is an event occurring after the balance sheet date is a non-adjusting event.

- (iii) In the given case, terms and conditions for acquisition of business were finalized before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2021.

Hence, it is an adjusting event and necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2021.

- (iv) Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.

In the given case, as the theft of cash was detected after approval of financial statements, no adjustment is required. Hence it is non-adjusting event.

- (d) (i) Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 “Related Party Disclosures” which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

In the given case, in the absence of share ownership, Mr. Happy would not be considered to exercise significant influence on Khushi Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr Happy does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

- (ii) According to AS 18 on ‘Related Party Disclosures’, parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021 as he received remuneration for his services in the company for the period from 1<sup>st</sup> April,2020 to 30<sup>th</sup> June,2020.

**Question 2**

- (a) A company provides the following 2 possible Capital Structures as on 31<sup>st</sup> March, 2021:

Particulars	Situation 1 (₹)	Situation 2 (₹)
Equity Share Capital (Shares of ₹ 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

**(15 Marks)**

- (b) (i) Explain the meaning of Equity Shares with Differential Rights.

Can Preference Shares be also issued with differential rights ?

- (ii) In Jugnu Limited A, B, C and D hold equity share capital in the proportion of 30:30:30:10 and M, N, O and P hold preference share capital in proportion of 40:20:30:10.

You are required to calculate their voting rights in case of resolution of winding up of the company, if the paid up Equity Share Capital of the company is ₹ 100 Lakhs and Preference Share Capital is ₹ 50 Lakhs. **(5 Marks)**

**Answer**

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

**Number of shares (in crores)**

Particulars	When loan fund is	
	₹ 25,00,000	₹ 1,20,00,000
Shares Outstanding Test (W.N.1)	75,000	75,000
Resources Test (W.N.2)	41,750	41,750
Debt Equity Ratio Test (W.N.3)	94,000	Nil
Maximum number of shares that can be bought back [least of the above]	41,750	Nil

**Journal Entries for the Buy-Back (applicable only when loan fund is ₹ 25,00,000)**

				₹
	Particulars		Debit	Credit
(a)	Equity shares buy-back account	Dr.	12,52,500	
	To Bank account			12,52,500
	(Being payment for buy-back of 41,750 equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	4,17,500	
	Premium Payable on buy-back account	Dr.	8,35,000	
	To Equity share buy-back account			12,52,500
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	6,00,000	
	General Reserve / Profit & Loss A/c	Dr.	2,35,000	
	To Premium Payable on buy-back account			8,35,000
	(Being Premium Payable on buy-back account charged to securities premium and general reserve/Profit & Loss A/c)			

(c)	General Reserve*	Dr.	4,17,500	
	To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			4,17,500

\*Profit and Loss account balance amounting ₹ 2,10,000 may also be used and General Reserve may be debited for the balance amount.

**Working Notes:**

**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	3,00,000
25% of the shares outstanding	75,000

**2. Resources Test**

Particulars	
Paid up capital (₹)	30,00,000
Free reserves (₹) (12,00,000+6,00,000+2,10,000)	<u>20,10,000</u>
Shareholders' funds (₹)	<u>50,10,000</u>
25% of Shareholders fund (₹)	₹ 12,52,500
Buy-back price per share	₹ 30
Number of shares that can be bought back	41,750 shares

**3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back**

	Particulars	When loan fund is	
(a)	Loan funds (₹)	₹ 25,00,000	₹ 1,20,00,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	12,50,000	60,00,000
(c)	Present equity shareholders fund (₹)	50,10,000	50,10,000

**Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method**

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

**Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back**

$$\begin{aligned} &= (50,10,000 - x) - 12,50,000 = y \\ &= 37,60,000 - x = y \end{aligned} \quad (1)$$

**Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share**

$$y/30 \times 10 = x$$

or

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

by solving the above two equations we get

$$x = ₹9,40,000 \text{ and}$$

$$y = ₹28,20,000$$

In situation 2, first equation will be negative. Buy back not possible in this situation.

- (b) (i) As per the Companies Act 2013, companies can issue equity shares with differential rights subject to the fulfilment of certain conditions. Companies (Share Capital and Debentures) Rules, 2014 deal with equity shares with differential rights. Differentiation can be done by giving a superior dividend / Superior voting right / diluted voting right to a class of equity shareholders.

Preference shares are not issued with differential rights. It is only the equity shares, which are issued.

- (ii) In the given case, the relative weight 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

		Relative weights	Voting Power
A	=	$2/3 \times 30/100 = 2/10$	20%
B	=	$2/3 \times 30/100 = 2/10$	20%
C	=	$2/3 \times 30/100 = 2/10$	20%
D	=	$2/3 \times 10/100 = 1/15$	6.67%
M	=	$1/3 \times 40/100 = 2/15$	13.33%
N	=	$1/3 \times 20/100 = 1/15$	6.67%
O	=	$1/3 \times 30/100 = 1/10$	10%
P	=	$1/3 \times 10/100 = 1/30$	3.33%

**Question 3**

- (a) A Partnership firm C & Co. consists of partners P and Q sharing Profits and Losses in the ratio of 4:1. The firm H & Co. consists of Partners Q and R sharing Profits and Losses in the ratio of 3:2. On 31st March, 2021, it was decided to amalgamate both the firms and form a new firm CH & Co., wherein P, Q, R would be partners sharing Profits and Losses in the ratio of 6:3:1. The summarized Balance Sheets of both the firms as on 31st March, 2021 were as follows:

Liabilities	C & Co. (₹ in 000)	H & Co. (₹ in 000)	Assets	C & Co. (₹ in 000)	H & Co. (₹ in 000)
Capital			Cash in hand/bank	160	120
P	600	-	Debtors	240	320
Q	400	300	Stock	200	80
R	-	200	Vehicles	-	350
Reserve	200	150	Machinery	480	-
Creditors	480	220	Building	600	-
Total	1,680	870	Total	1,680	870

The following were the terms of amalgamation:

- Goodwill of C & Co. was valued at ₹ 2,80,000 and the Goodwill of H & Co. was valued at ₹ 1,60,000. Goodwill account is not to be opened in the books of the new firm but to be adjusted through the Capital accounts of the partners.
- Building, Machinery and Vehicles are to be taken over at ₹ 8,00,000, ₹ 4,00,000 and ₹ 3,00,000, respectively.
- Provision for doubtful debts at ₹ 20,000 in respect of C & Co. and ₹ 10,000 in respect of H & Co. are to be provided.

You are required to:

- Show how the Goodwill value will be adjusted amongst the partners.
  - Prepare the Balance Sheet of CH & Co as at 31st March, 2021 by keeping Partners' capital in their profit sharing ratio taking capital of 'Q' as the basis. The excess or deficiency to be kept in the respective Partner's Current Account. **(15 Marks)**
- (b) Siddharth Auto Financiers Limited is a NBFC providing Finance for purchasing of Auto Rickshaws. The following information is extracted from its books for the year 31st March, 2021:

Interest Overdue but recognised in Profit and Loss Account		Net Book Value of Assets Outstanding
Period Overdue	Interest Amount (₹ In Crore)	(₹ In crores)
Up to 12 Months	750.00	30,000
For 24 Months	200.00	4,000
For 30 Months	200.00	3,750
For 45 Months	250.00	3,000
For 60 Months	500.00	10,000

You are required to calculate the amount of provision to be made.

(5 Marks)

**Answer**

(a) (i) **Adjustment for raising and writing off of goodwill**

	Raised in old profit-sharing ratio		Total	Written off in new ratio	Difference
	C & Co.	H & Co.			
	4:1	3:2		6:3:1	
	₹	₹	₹	₹	₹
P	2,24,000	---	2,24,000 Cr.	2,64,000 Dr.	40,000 Dr.
Q	56,000	96,000	1,52,000 Cr.	1,32,000 Dr.	20,000 Cr.
R	---	64,000	64,000 Cr.	44,000 Dr.	20,000 Cr.
	<u>2,80,000</u>	<u>1,60,000</u>	<u>4,40,000</u>	<u>4,40,000</u>	<u>Nil</u>

(ii) **Balance Sheet of CH & Co. (New firm) as on 31.3.2021**

Liabilities	₹	Assets	₹
Capital Accounts:		Vehicle	3,00,000
P	16,68,000	Machinery	4,00,000
Q	8,34,000	Building	8,00,000
R	2,78,000	Stock	2,80,000
Creditors	7,00,000	Debtors	5,30,000
		Cash & Bank	2,80,000
		Current Accounts:	
		P	8,68,000
		R	22,000
	<u>34,80,000</u>		<u>34,80,000</u>

**Working Notes:****1. Balance of Capital Accounts at the time of amalgamation of firms****C & Co.**

<b>Particulars</b>	<b>P's Capital ₹</b>	<b>Q's Capital ₹</b>
C & Co. Profit and loss sharing ratio 4:1		
Balance as per Balance Sheet	6,00,000	4,00,000
Add: Reserves	1,60,000	40,000
Revaluation profit (Building)*	1,60,000	40,000
Less: Revaluation loss (Machinery)	(64,000)	(16,000)
Provision for doubtful debt	(16,000)	(4,000)
	8,40,000	4,60,000
<b>H &amp; Co.</b>		
<b>Particulars</b>	<b>Q's Capital ₹</b>	<b>R's Capital ₹</b>
H & Co. Profit and loss sharing ratio 3:2		
Balance as per Balance sheet	3,00,000	2,00,000
Add: Reserves	90,000	60,000
Less: Revaluation (vehicle)	(30,000)	(20,000)
Provision for doubtful debts	(6,000)	(4,000)
	3,54,000	2,36,000

**2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2021**

<b>Particulars</b>	<b>P ₹</b>	<b>Q ₹</b>	<b>R ₹</b>
Balance b/d: C & Co.	8,40,000	4,60,000	--
H & Co.	--	<u>3,54,000</u>	<u>2,36,000</u>
	8,40,000	8,14,000	2,36,000
Adjustment for goodwill	<u>(40,000)</u>	<u>20,000</u>	<u>20,000</u>

\* NOTE: Alternative solution using Revaluation Account is also possible. In that case, Revaluation account will be prepared in the books of both amalgamating firms for recording profit/loss on revaluation of assets. However, the final balances of partners' capitals in the balance sheet of amalgamated firm will remain same as given in the above solution.

	8,00,000	8,34,000	2,56,000
Total capital ₹ 27,80,000 (Q's capital i.e. ₹ 8,34,000 x 10/3) to be contributed in 6:3:1 ratio.	<u>16,68,000</u>	<u>8,34,000</u>	<u>2,78,000</u>
Deficiency Transferred to Current Account	8,68,000	---	22,000

(b) On the basis of the information, in respect of financed assets, provision shall be made as under:

(₹ in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 4,000	400
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 3,750	1,500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 3,000	2,100
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	10,000
	Total	14,000

#### Question 4

(a) The Trial Balances of X Limited and Y Limited as on 31<sup>st</sup> March, 2021 were as under:

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹ 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900

Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend up to 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Fixed Assets	2,200		1,580	
<b>Total</b>	<b>5,027</b>	<b>5,027</b>	<b>3,450</b>	<b>3,450</b>

Investment in Y Limited was acquired on 1<sup>st</sup> July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021. **(15 Marks)**

- (b) Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:
- (i) On consolidation of Balance Sheet.
  - (ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.
  - (iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs. **(5 Marks)**

**Answer**

- (a) **Consolidated Profit and Loss Account of X Ltd. and Y Ltd.**  
for the year ended 31st March, 2021

Particulars	Note No.	₹
I. Revenue from operations	1	<u>35,80,000</u>
II. Total revenue		<u>35,80,000</u>

III.	Expenses		
	Cost of Material purchased/Consumed	2	20,80,000
	Changes of Inventories of finished goods		-
	Employee benefit expense	3	5,00,000
	Finance cost	4	48,000
	Depreciation and amortization expense	5	4,57,000
	Other expenses	6	<u>2,80,000</u>
	Total expenses		<u>33,65,000</u>
IV.	Profit before Tax (II-III)		2,15,000
	Profit transferred to Consolidated Balance Sheet		
	Profit After Tax		2,15,000
	Preference dividend	7,000	
	Preference dividend payable	<u>7,000</u>	<u>(14,000)</u>
			2,01,000
	Share in pre-acquisition loss (WN 3)		1,800
	Share of Minority interest in losses (WN 1)		1,800
	Less: Investment Account- dividend for 3 months (prior to acquisition)		(3,500)
	Inventory reserve (WN 2)		<u>(6,000)</u>
	Profit to be transferred to consolidated balance sheet		1,95,100

**Notes to Accounts**

		₹	₹
1	Revenue from Operations		
	X Ltd.	18,00,000	
	Y Ltd.	<u>19,00,000</u>	
	Total	37,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	35,80,000
2	Cost of Materials Purchased/Consumed		
	X Ltd.	10,00,000	
	Y Ltd.	<u>12,00,000</u>	
	Total	22,00,000	
	Less: Intra-group sales (X sold to Y)	<u>(1,20,000)</u>	20,80,000
3	Employee benefit and expenses		

	Wages and salaries		
	H Ltd.	2,00,000	
	S Ltd.	<u>3,00,000</u>	5,00,000
4	Finance cost		
	Interest		
	H Ltd.	24,000	
	S Ltd.	<u>24,000</u>	48,000
5	Depreciation		
	H Ltd.	2,20,000	
	S Ltd.	<u>2,37,000</u>	4,57,000
6	Other expenses		
	H Ltd.	1,60,000	
	S Ltd.	<u>1,20,000</u>	2,80,000

**Working Note**

1. **Profit of Subsidiary**

₹

Revenue from Operations		19,00,000
Less: Expenses		
Cost of Material purchased/Consumed	12,00,000	
Changes of Inventories of finished goods	-	
Employee benefit expense	3,00,000	
Finance cost	24,000	
Depreciation and amortization expense	2,37,000	
Other expenses	<u>1,20,000</u>	
Total expenses		<u>(18,81,000)</u>
Profit Before Tax		<u>19,000</u>
Less: Preference Dividend	14,000	
Less: Preference Dividend Payable	<u>14,000</u>	<u>(28,000)</u>
Profit available for shareholders		<u>(9,000)</u>
Minority Share (20% of loss ₹ 9,000)		(1,800)

2. **Inventory reserve** =  $\left[ \frac{120,000}{4} \times \frac{25}{125} \right] = ₹ 6,000$

3. **Pre-acquisition loss** = 80% of 3 month's profit up to 30<sup>th</sup> June, 2020 i.e. 80 % of 1/4 of loss ₹ 9,000. Hence, pre-acquisition loss = ₹ 1,800

4. Investment account includes Preference dividend for 3 months prior to acquisition i.e. ₹ 4,00,000 X 50% X 7% X 1/4 = ₹ 3,500

(b)

	₹
60% of the Equity Share Capital ₹ 100 Lakhs	60
60% of Accumulated Reserve ₹ 70 Lakhs (40+30) Lakhs	<u>42</u>
Book value of shares of Short Ltd.	<u>102</u>

- (i) Goodwill / Capital Reserve computation on consolidation of balance sheet  
Long Ltd. paid a positive differential of ₹ 10 Lakhs (112 - 102). This differential ₹ 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles
- (ii) If Long Ltd. showed the investment in Short Ltd. at carrying amount of ₹ 104 Lakhs, then the goodwill will be ₹ 2 Lakhs.
- (iii) If the consideration paid is ₹ 92 lakhs, then there would have been capital reserve amounting ₹ 10 Lakhs (102- 92).

**Question 5**

- (a) The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
<b>Equity and Liabilities</b>			
<b>Shareholders' Funds</b>			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
<b>Current Liabilities</b>			
Trade payables		<u>600</u>	<u>360</u>
Total		<u>7,680</u>	<u>4,620</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, Plant and Equipment		3,600	2,400
<b>Current assets</b>			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		<u>1,440</u>	<u>420</u>
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital Equity Shares of ₹ 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

Black Limited takes over White Limited on 1<sup>st</sup> July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par.

Ignore income tax. You are required to:

- Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
- Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1<sup>st</sup> July, 2020.
- Give balance of Profit or Loss of Black Limited as on 1<sup>st</sup> July, 2020
- Give balance of Property Plant and Equipment as on 1<sup>st</sup> July, 2020 after takeover.

**(10 Marks)**

- (b) The following are the figures extracted from the books of New Bank Limited as on 31.03.2021.

	Figure in ₹
Interest and Discount received	48,11,200
Interest paid on Deposits	22,95,920
Salaries and allowances	8,40,510
Directors fees and allowances	45,000
Issued and subscribed capital	16,00,000

Commission, Exchange and Brokerage received	1,45,000
Postage and Telegrams	60,000
Statutory Reserve Fund	8,00,000
Interest on cash credit	2,65,000
Profit on sale of Investments	1,15,800
Depreciation on Bank's Property	40,000
Interest on Overdraft	1,20,000
Rent Received	65,000
Legal Expenses	21,000
Auditors Fees	5,000
Statutory Expenses	38,000

The following information is also given:

(i) A customer to whom a sum of ₹ 5 Lakhs was advanced has become insolvent and it is expected that only 50% can be recovered from his estate.

(ii) Make necessary provisions on Risk Assets:

Standard (excluding above ₹ 5,00,000)	10,00,000
Sub-Standard (fully secured)	8,20,000
Doubtful assets covered by security for 1 year	40,000
Loss assets	1,00,000

(iii) Provide ₹ 6,50,000 for Income Tax.

(iv) The directors desire to declare 10% dividend.

(v) 25% of profit is to be transferred to Reserve fund.

(vi) Rebate on Bills discounted on 31.03.2020 was ₹ 20,000 and ₹ 15,000 on 31.03.2021.

You are required to prepare Profit & Loss A/c of New Bank Limited for the year ended 31.03.2021. **(10 Marks)**

### Answer

(a) (i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.	₹	₹
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 × 10 % × 3/12]	<u>(60,000)</u>	
	23,40,000	
Add: Appreciation	<u>1,20,000</u>	24,60,000

Inventory			7,20,000
Trade receivables			10,80,000
Cash and Bank balances		4,20,000	
Add: Profit after depreciation	2,40,000		
Add: Depreciation (non-cash)	<u>60,000</u>	3,00,000	
Less: Dividend [36,00,000 × 10%]		<u>(3,60,000)</u>	<u>3,60,000</u>
			48,60,000
Less: Trade payables			<u>(3,60,000)</u>
Purchase Consideration			<u>45,00,000</u>
Number of shares to be issued by Black Ltd. @ ₹ 100 each			45,000 shares

## (ii) Calculation of Net Current Assets as on 01.07.2020

		Black Ltd.		White Ltd.
	₹	₹		₹
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	<u>90,000</u>	<u>14,10,000</u>	<u>60,000</u>	<u>3,60,000</u>
		40,50,000		21,60,000
Less: Trade payables		<u>(6,00,000)</u>		<u>(3,60,000)</u>
		<u>34,50,000</u>		<u>18,00,000</u>

## (iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	₹
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	<u>(6,00,000)</u>
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	<u>4,80,000</u>
	<u>6,00,000</u>

## (iv) Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
		35,10,000
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	<u>(60,000)</u>	
	23,40,000	
Add: Appreciation above the estimated book value	<u>1,20,000</u>	<u>24,60,000</u>
Total Property, plant and equipment as on 1.7.2020		<u>59,70,000</u>

## (b)

## New Bank Limited

Profit and Loss Account for the year ended 31<sup>st</sup> March, 2021

		Schedule	Year ended 31.03.2021
			₹
I.	Income:		
	Interest earned	13	52,01,200
	Other income	14	<u>3,25,800</u>
	Total		<u>55,27,000</u>
II.	Expenditure		
	Interest expended	15	22,95,920
	Operating expenses	16	10,49,510
	Provisions and contingencies (6,50,000+2,37,000+2,50,000)		<u>11,37,000</u>
	Total		<u>44,82,430</u>
III.	Profits/Losses		
	Net profit for the year		10,44,570
	Profit brought forward		<u>Nil</u>
			<u>10,44,570</u>

IV.	Appropriations	
	Transfer to statutory reserve (25% of 10,44,570)	2,61,143
	Proposed dividend	1,60,000
	Balance carried over to balance sheet	<u>6,23,427</u>
		<u>10,44,570</u>

Note: Profit & Loss Account balance of ₹ 6,23,427 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

Year ended 31.3.2021 (₹)		
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	48,16,200
	Interest on cash credit*	2,65,000
	Interest on overdraft *	<u>1,20,000</u>
		<u>52,01,200</u>
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	1,45,000
II.	Profit on sale of investment	1,15,800
III.	Rent received	<u>65,000</u>
		<u>3,25,800</u>
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	<u>22,95,920</u>
		<u>22,95,920</u>
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees (salaries & allowances)	8,40,510
II.	Depreciation on assets	40,000
III.	Director's fee, allowances and expenses	45,000
IV.	Auditor's fee	5,000
V.	Statutory (law) expenses	38,000
VI.	Postage and telegrams	60,000
VII.	Legal expenses	<u>21,000</u>
		<u>10,49,510</u>

\* Considered to be earned.

**Working Notes:**

1.

	₹
Interest and discount received	48,11,200
Add: Rebate on bills discounted on 31.3. 2020	20,000
Less: Rebate on bills discounted on 31.3. 2021	<u>(15,000)</u>
	<u>48,16,200</u>

2.

Classification of Assets	Amount of Advances	% age of provision	Amount of provision
Standard assets	10,00,000	0.40	4,000
Sub-standard assets	8,20,000	15	1,23,000
Doubtful assets:			
For one year (secured)	40,000	25	10,000
Loss assets	1,00,000	100	<u>1,00,000</u>
Total provision required			<u>2,37,000</u>

**Question 6**Answer any **four** of the following:

(a) The following particulars are stated in the Balance Sheet of Deep Limited as on 31st March, 2020:

	(₹ In Lakhs)
Deferred Tax Liability (Cr.)	28.00
Deferred Tax Assets (Dr.)	14.00

The following transactions were reported during the year 2020-2021:

- (i) Depreciation as per books was ₹ 70 Lakhs whereas Depreciation for Tax purposes was ₹ 42 Lakhs. There were no additions to Fixed Assets during the year.
- (ii) Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were ₹ 14 Lakhs.
- (iii) Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for the year 2020-21 (1/10th of ₹ 70.00 lakhs incurred in 2019-20).

(iv) Repairs to Plant and Machinery were made during the year for ₹ 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, the entire expenditure was allowed for income-tax purposes in the year 2020-21.

Tax Rate to be taken at 40%.

You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.

(b) The different categories of shareholders of Earth Limited, who went into liquidation on 1st April, 2021 are as follows:

(i) 32,000 Equity shares of ₹ 100 each, ₹ 80 paid up

(ii) 48,000 Equity shares of ₹ 100 each, ₹ 35 paid up

(iii) 12,80,000 Equity shares of ₹ 10 each, ₹ 7 paid up.

You are required to distribute the surplus money among different categories of shareholders, if the surplus available with Liquidator after discharging all the liabilities is ₹ 32,00,000.

(c) A Limited sells goods with unlimited right of return to its customers.

The following pattern has been observed in the Return of Sales:

Time frame of Return from date of purchase	% of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of ₹ 36 Lakhs in the month of January, ₹ 48 Lakhs in the month of February and of ₹ 60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹ 400 Lakhs and the Cost of Sales was ₹ 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized as on 31st March.

(d) At the beginning of the year 1, Harmony Limited grants 600 options to each of its 1000 employees. The contractual life of option granted is 6 yrs.

Other relevant information is as follows:

Vesting Period	3 years
Exercise period	3 years
Expected Life	5 years
Exercise Price	₹ 100
Market Price	₹ 100
Expected Forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2 and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognized at the end of all the three years assuming that expected forfeiture rate does not change during the vesting period when the Intrinsic value of the options at the grant date is ₹ 7 per options.

- (e) Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.
- (i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:
    - New fully paid ₹ 10 Equity Shares equal to  $\frac{3}{5}$ th of their holding.
    - Fully paid ₹ 10, 6% Preference Shares to the extent of  $\frac{2}{5}$ th of the above new equity shares.
    - 7% Debentures of ₹ 250,000.
  - (ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.
  - (iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.
  - (iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.
  - (v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses. **(4 Parts x 5 Marks = 20 Marks)**

### Answer

- (a) Impact of various items in terms of deferred tax liability/deferred tax asset on 31.3.21

Transactions	Analysis	Nature of difference	Effect	Amount (₹)
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the	Responding timing difference	Reversal of DTL	28 lakhs × 40% = ₹ 11.20 lakhs

Disallowances, as per IT Act, of earlier years	asset in comparison to later years. Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	14 lakhs × 40% = 5.6 lakhs
Share issue expenses	Due to disallowance of full expenditure under IT Act, tax payable in the earlier years was higher.	Responding timing difference	Reversal of DTA	7 lakhs × 40% = ₹ 2.8 lakhs
Repairs to plant and machinery	Due to allowance of full expenditure under IT Act, tax payable of the current year will be less.	Originating timing difference	Increase in DTL	70 lakhs × 40% = 28 lakhs

(b)

Particulars	I	II	III	Total (₹)
No. of shares	32,000	48,000	12,80,000	13,60,000
Equity share capital (@₹ 100)	32,00,000	48,00,000	128,00,000	208,00,000
Paid up share Capital (A)	25,60,000	16,80,000	89,60,000	132,00,000
Loss due to Liquidation (B) (₹ 100,00,000 in 2:3:8)	(15,38,462)	(23,07,692)	(61,53,846)	(100,00,000)
Surplus/ (deficiency) amount distributed among different categories of shareholders (A) – (B)	10,21,538	(6,27,692)	28,06,154	32,00,000

Loss due to Liquidation ₹ 100,00,000 will be distributed in ratio in 2:3:8

Note: Shareholders of category I and III will get surplus amount, while category II shareholders will pay ₹ 6,27,692.

**Alternative Answer**

Particulars	I	II	III
No. of shares (A)	32,000	48,000	12,80,000
Nominal value per share	₹ 100	₹ 100	₹ 10
Paid up value per share (B)	80	35	7

Loss per share due to Liquidation (C)	48.08	48.08	4.808
Surplus/ Deficiency amount distributed among different categories of shareholders (A) x [(B) – (C)]	10,21,440	(6,27,840)	28,05,760

**Calculation of loss per share**

Total Paid up Share Capital = ₹ 1,32,00,000

Surplus = ₹ 32,00,000

Loss to Shareholders = ₹ 1,00,00,000

No. Shares = = 2,08,000 [32,000 + 48,000 + (12,80,000 x 10/100)]

Loss per Share = = ₹ 48.08

**(c) Amount of provision**

The goods are sold with a right to return. The existence of such right gives rise to a present obligation on the company as per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. According to the standard, a provision should be created on the Balance sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

Sales during	Sales value (₹ in lacs)	Sales value (cumulative) ₹ (in lacs)	Likely returns (%)	Likely returns ₹ (in lacs)	Provision @ 20% (₹ in lacs) (Refer W.N.)
March	60	60	6%	3.60	0.720
February	48	108	7%	7.56	1.512
January	36	144	8%	<u>11.52</u>	<u>2.304</u>
Total				<u>22.68</u>	<u>4.536</u>

**Revenue to be recognized**

Revenue in respect of sale of goods is recognized fully at the time of sale itself assumed that the company has complied with the conditions stated in AS 9 relating to recognition of revenue in the case of sale of goods. As per AS 9, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

- (i) 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. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate to recognize the sale but to make a suitable provision for returns based on previous experiences.

Therefore, sale of ₹ 36 lakhs, ₹ 48 lakhs and ₹ 60 lakhs made in the months of January, February and March will be recognized at full value. Thus, total revenue to be recognized for RS. 400 lacs for the year.

**Working Note:**

**Calculation of Profit % on sales**

	(₹ in lacs)
Sales for the year	400
Less: Cost of sales	<u>(320)</u>
Profit	<u>80</u>
Profit mark up on sales $(80/400) \times 100 = 20\%$	

- (d) Since the options granted have a graded vesting schedule, the enterprise segregates the total plan into different groups, depending upon the vesting dates and treats each of these groups as a separate plan. The enterprise determines the number of options expected to vest under each group as below:

Vesting Date (Year-end)		Options expected to vest
1	600 options x 1,000 employees x 25% x 0.97	1,45,500 options
2	600 options x 1,000 employees x 25% x 0.97 x 0.97	1,41,135 options
3	600 options x 1,000 employees x 50% x 0.97 x 0.97	2,73,802 options
<i>Total options expected to vest</i>		<u>5,60,437 options</u>

In case of intrinsic value method, total compensation expense for the options expected to vest would be

Vesting Date (End of year)	Expected Vesting (No. of Options)	Value per Option (₹)	Compensation Expense (₹)
1	1,45,500	7	10,18,500
2	1,41,135	7	9,87,945
3	<u>2,73,802</u>	7	<u>19,16,614</u>
	<u>5,60,437</u>		<u>39,23,059</u>

Total compensation expense of ₹ 39,23,059, determined at the grant date, would be attributed to the years 1, 2 and 3 as below:

Vesting Date (End of year)	Cost to be recognized		
	Year 1	Year 2	Year 3
1	10,18,500		
2	4,93,972.50*	4,93,972.50	
3	<u>6,38,871</u>	<u>6,38,871</u>	<u>6,38,872</u>
Cost for the year	<u>21,51,343.50</u>	<u>11,32,843.50</u>	<u>6,38,872</u>
Cumulative cost	21,51,343.50	32,84,187	39,23,059

\* Alternatively, it may be rounded off as ₹ 4,93,972 in year 1 and ₹ 4,93,973 in year 2.

(e) **Journal Entries**

		₹	₹
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (₹ 10) A/c			45,00,000
To 6% Preference Share Capital (₹ 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

**Note:** In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.