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) *Fisher Construction Co. obtained a contract for construction of a commercial complex. The following details are available in records of a company for the year ended 31^{st} March, 2023:*

Particulars	***Amount in lakhs***
Total contract price	*24000*
Work certified	*12500*
Work not certified	*2500*
Estimated further cost to completion of work	*17500*
Progress payment received	*11000*
Progress payment to be received	*3000*

Applying the provisions of AS 7, you are required to compute:

(i) *Profit / Loss for the year ended 31^{st}March, 2023.*

(ii) *Contract work in progress at the end of financial year 2022-2023.*

(iii) *Revenue to be recognized out of the total contract value.*

(iv) *Amount due from/ to customers as at the year end.* ***(5 Marks)***

(b) *Toy Ltd. is engaged in manufacturing toys. They provide you the following information as on 31^{st} March, 2023:*

(i) *On 15^{th}January, 2023, Toys worth ` 5,00,000 were sent to A Ltd. on consignment basis of which 25% Toys unsold were lying with A Ltd. as on 31^{st}March, 2023,*

(ii) *Toys worth ` 2,25,000 were sold to S Ltd. on 25^{th}March, 2023 but at the request of S Ltd., these were delivered on 15^{th}April, 2023.*

(iii) *On 1^{st} November, 2022, toys worth ` 3,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods upto 31^{st}December, 2022 and no approval or disapproval received for the remaining goods till 31^{st}March, 2023.*

You are required to advise the accountant of Toy Ltd., the amount to be recognised as revenue in above cases in the context of AS-9. ***(5 Marks)*** *(c) Answer the following with respect to AS-18:*

(i) ABC Ltd. sold goods of ` 2,00,000 to its associate company for the 1st quarter ending 30.06.2022. After that the related party relationship ceased to exist. However, goods were supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

(ii) If the majority of directors of Arjun Ltd. constitute the majority of the Board of another Company Bheem Ltd. in their individual capacity as professionals (and not by virtue of their being Directors in Arjun Ltd.). Are both the companies related?

(iii) Asha Ltd. sells all the manufactured furniture of ` 1,00,00,000 to Sasha Ltd, as per agreement. Sasha Ltd. is the only customer to Asha Ltd. In the financial statements, Asha Ltd. wants to present Sasha company as a related party. Comment on the disclosure requirement. ***(5 Marks)***

(d) The Accountant of X. Ltd. provides the following data regarding its five segments:

Particulars	*A*	*B*	*C*	*D*	*E*	*Total (` in Crore)*
Segment Assets	*50*	*20*	*15*	*10*	*5*	*100*
Segment Results	*(85)*	*10*	*10*	*(15)*	*5*	*(75)*
Segment Revenue	*250*	*50*	*40*	*60*	*30*	*430*

The 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.

(5 Marks)

Answer

(a)

	(` In lakhs)
(i) Profit or Loss for the year ended 31.03.2023	32,500
Total cost of construction (12,500 + 2,500 + 17,500)	(24,000)
Less: Total contract price	8,500
Total foreseeable loss to be recognized as expense	

According AS 7, when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately.

	(` in lakhs)
(ii) Contract work-in-progress i.e. cost incurred to date are ` 15,000 lakhs	
Work certified	12,500
Work not certified	2,500
Contract work in progress at the end of 2022-23	15,000

(iii) Proportion of total contract value recognized as revenue:

For this, cost incurred till 31.03.2023 is 46.154% (15,000/32,500 × 100) to total costs of construction.

Therefore, Proportion of total contract value recognized as revenue is

46.154% of ` 24,000 lakhs = ` 11,076.96 lakhs

Or 46.15% (Approx.) of ` 24,000 lakhs = ` 11,076 lakhs

(iv) Amount due from/ to customers =

(Contract costs + Recognised profits – Recognised Losses)

– (Progress payments received + Progress payments to be received)

= (15,000 + Nil – 8,500) – (11,000 + 3,000) ` in lakhs

= [6,500 – 14,000] ` in lakhs

Amount due to customers = ` 7,500 lakhs

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

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i) 25% toys lying unsold with consignee should be treated as closing inventory and sales should not be recognized for ` 1,25,000 (25% of ` 5,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Sales for ` 3,75,000 (75% of ` 5,00,000) should be recognized for the year ended 31st March, 2023.

Case (ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ` 2,25,000 for the year ended 31st March, 2023.

Case (iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ` 3,50,000 as the time period for rejecting the goods had expired.

(c) (i) As per AS 18, parties are considered to be related if any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party. Transactions of ABC Ltd. with its associate company for the first quarter ending 30.06.2022 only are required to be disclosed as related party transactions as the company has the ability to exercise significant influence only till 30.6.2022.

The transactions for the period in which related party relationship did not exist need not be reported.

(ii) In the given case, Arjun Ltd. cannot be said to control the composition of board of directors of Bheem Ltd. as the directors have been appointed in their individual capacity as professionals and not by virtue of their being directors in Arjun Ltd.

Hence, it cannot be concluded that the companies are related merely because the majority of the directors of one company became the majority of the directors of the second in their individual capacity as professionals.

(iii) In the context of AS 18, a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business cannot be construed as Related Party Relationship merely by virtue of the resulting economic dependence. There is an economic dependence between the companies but no one controls or exercise significant influence on the other.

In the given case, Asha Ltd. need not report Sasha Company as its related party in its financial statements.

(d) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- 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
- Its segment result whether profit or loss is 10% or more of:
  - The combined result of all segments in profit; or
  - The combined result of all segments in loss,

  whichever is greater in absolute amount; or
- Its segment assets are 10% or more of the total assets of all segments.

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 75% of total enterprise revenue is included in reportable segments.

On the basis of revenue criteria, segments A, B and D are reportable segments.

On the basis of the result criteria, segments A, B, C and D are reportable segments (since their results in absolute amount are 10% or more of ` 100 crore).

On the basis of asset criteria, all segments except E are reportable segments.

Since all the segments except E are covered in at least one of the above criteria. Hence, all segments except E have to be reported upon in accordance with Accounting Standard (AS) 17.

Hence, the opinion of chief accountant that only segment A alone should be reported, is wrong as all segments are reportable except E.

Question 2

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ` 40,00,000 divided into ` 8,00,000 equity shares of 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (`)	**Y Ltd. (`)**
Share Capital	*34,25,000*	*36,10,000*
Trade Payable	*59,70,000*	*18,02,500*
Property, Plant and Equipment	*58,25,000*	*37,40,000*
Current Assets	*31,45,000*	*15,99,500*

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd.	**Y Ltd.**
Property, Plant and Equipment	*71,00,000*	*39,00,000*
Current Assets	*29,95,000*	*15,77,500*

The debtors and creditors include 1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd.	**Y Ltd.**
2020 Profit	*42,50,000*	*26,50,000*
2021 Profit	*44,45,760*	*27,60,000*
2022 (Loss) / Profit	*(75,000)*	*34,00,000*
2023 Profit	*37,79,240*	*35,90,000*

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

You are required to:

(1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.

(2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation.

(20 Marks)

Answer

(1) **Computation of amount of Debentures and Shares to be issued:**

(i) Average Net Profit	X Ltd.	Y Ltd.
` (42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
` (26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

(a) Ratio of distribution

X Ltd.	:	Y Ltd.
1		1

(b) Number of shares

X Ltd.	:	3,10,000
Y Ltd.	:	3,10,000
		6,20,000

(c) Amount of shares

3,10,000 shares of ` 5 each	=	` 15,50,000
3,10,000 shares of ` 5 each	=	` 15,50,000

(iii)

Capital Employed (after revaluation of assets)	**X Ltd. (`)**	**Y Ltd. (`)**
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	54,77,500
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	36,75,000

(iv) Debentures Issued

	X Ltd. (`)	Y Ltd. (`)
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	$1,65,000 \times \frac{100}{7.5}$	$1,47,000 \times \frac{100}{7.5}$
	22,00,000	19,60,000

Balance Sheet of XY Ltd.

As at 31st March 2023 (after amalgamation)

Particulars	Note No	`
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	31,00,000
(b) Reserves and Surplus	2	5,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	41,60,000
(3) Current Liabilities		
(a) Trade Payables	4	76,35,250
Total		1,54,35,250
II. Assets		
(1) **Non-current assets**		
(a) PPE	5	1,10,00,000
(2) **Current assets**		
(a) Other current assets	6	44,35,250
Total		1,54,35,250

Notes to Accounts

		`
1	Share Capital	
	Authorized	
	8,00,000 Equity Shares of ` 5 each	40,00,000
	Issued and Subscribed	
	6,20,000 Equity Shares of ` 5 each	31,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	
2	Reserve and Surplus	

	Capital Reserve		5,40,000
3	Long-term borrowings		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000
4	Current Liabilities:		
	Trade Payables		
	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5	Property, Plant and Equipment:		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6	Other Current Assets:		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

			X Ltd. `	*Y Ltd.* `	*Total* `
(1)		*Purchase Consideration*			
		Equity Shares Issued	15,50,000	15,50,000	31,00,000
		7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
			37,50,000	35,10,000	72,60,000
(2)		*Capital Reserve*			
	(a)	Net Assets taken over			
		Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
		Current Assets	29,95,000	14,40,250*	44,35,250
			1,00,95,000	53,40,250	1,54,35,250
		Less: Current Liabilities	(58,32,750**)	(18,02,500)	(76,35,250)

	42,62,250	35,37,750	78,00,000
(b) Purchase Consideration	37,50,000	35,10,000	72,60,000
(c) Capital Reserve [(a) - (b)]	5,12,250	27,750	5,40,000

* 15,77,500–1,37,250 = 14,40,250

** 59,70,000–1,37,250 = 58,32,750

Note: In Working note 2 given above, the mutual owings amounting ` 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings. In that case, this working note will be presented in the following manner:

Capital Reserve			
(a) Net Assets taken over			
Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
Current Assets	29,95,000	15,77,500	45,72,500
	1,00,95,000	54,77,500	1,55,72,500
Less: Current Liabilities	(59,70,000)	(18,02,500)	(77,72,500)
	41,25,000	36,75,000	78,00,000
(b) Purchase Consideration	37,50,000	35,10,0000	72,60,000
(c) Capital Reserve [(a) - (b)]	3,75,000	1,65,000	5,40,000

Question 3

(a) G Ltd.. and its subsidiary K Ltd. give the following information for the year ended 31st March, 2023: *(` in crores)*

Particulars	*G Ltd.*	*K Ltd*
Sales and other Income	*3000*	*750*
Increase in Inventory	*750*	*100*
Raw material consumed	*600*	*100*
Wages and Salaries	*600*	*75*
Production expenses	*100*	*50*
Administrative expenses	*75*	*50*
Selling and Distribution expenses	*100*	*25*
Interest	*75*	*30*
Depreciation	*75*	*30*

The following information is also given:

(i) G sold goods of ` 200 crores to K Ltd. at cost plus 25%. (1/5th of such goods were still in inventory of K Ltd. at the end of the year)

(ii) G Ltd. holds 75% of the Equity share capital of K Ltd. and the Equity share capital of K Ltd. is ` 800 crores on 01.04.2022 (date of acquisition of shares)

(iii) Administrative expenses of K Ltd. include ` 5 crore paid to G Ltd. as consultancy fees. Also, selling and distribution expenses of G Ltd. include ` 20 crores paid to K Ltd. as commission.

Prepare a consolidated statement of Profit and Loss of G Ltd. with its subsidiary K. Ltd. for the year ended 31st March, 2023. ***(15 Marks)***

(b) SR Finance Ltd. is a Non-Banking Finance Company. The extracts of its balance sheet are as follows:

Particulars	***Amount (` in lakhs)***
Equity and Liabilities	
Shareholders' Funds	
Paid up Equity Capital	*300*
Free Reserves	*900*
Non- Current Liabilities	
Loans	*750*
Deposits	*900*
	2850
Assets	
Non-Current Assets	
Property, Plant and Equipment	*1350*
Investments:	
In shares of subsidiaries	*375*
In Debentures of group companies	*600*
Current Assets	
Cash and Bank balances	*525*
	2850

You are required to compute Net Owned Fund' of SR Finance Ltd. as per Non-Banking Financial Company - Systematically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. ***(5 Marks)***

Answer

(a) Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars		***Note No.***	***` in Crores***
I.	**Revenue from operations**	1	3,525
II.	**Total Income**		3,525
III.	**Expenses**		
	Cost of material purchased/consumed	2	650
	Changes of inventories of finished goods	3	(842)
	Employee benefit expense	4	675
	Finance cost	5	105
	Depreciation and amortization expense	6	105
	Other expenses	7	225
	Total expenses		918
IV.	**Profit before tax (II-III)**		2,607

Notes to Accounts

		` in Crores	***` in Crores***
1.	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(200)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,525
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(200)	500

	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			650
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ` 40 crores × 25/125	(8)	842
4.	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

Note: The information (i) given in the question states that G Ltd. sold goods of ` 200 crores to K Ltd. at cost plus 25%. In the above solution it has been considered that the amount of ` 200 crores is sale value. Alternatively, ` 200 crores may be assumed as the cost of the goods sold. In that case, the solution will differ and will be as follows:

Alternative solution:

Consolidated statement of profit and loss of G Ltd. and its subsidiary K Ltd. for the year ended on 31st March, 2023

Particulars		*Note No.*	*` in Crores*
I.	**Revenue from operations**	1	3,475
II.	**Total Income**		3,475
III.	**Expenses**		
	Cost of material purchased/consumed	2	600
	Changes of inventories of finished goods	3	(840)
	Employee benefit expense	4	675
	Finance cost	5	105
	Depreciation and amortization expense	6	105
	Other expenses	7	225
	Total expenses		870
IV.	**Profit before tax (II-III)**		2,605

Notes to Accounts

		` in Crores	*` in Crores*
1.	Revenue from operations		
	Sales and other income		
	G Ltd.	3,000	
	K Ltd.	750	
		3,750	
	Less: Inter-company sales	(250)	
	Consultancy fees received by G Ltd. from K Ltd.	(5)	
	Commission received by K Ltd. from G Ltd.	(20)	3,475
2.	Cost of material purchased/consumed		
	G Ltd.	600	
	K Ltd.	100	
		700	
	Less: Purchases by K Ltd. from G Ltd.	(250)	450

	Direct expenses (Production)		
	G Ltd.	100	
	K Ltd.	50	150
			600
3.	Changes of inventories of finished goods		
	G Ltd.	750	
	K Ltd.	100	
		850	
	Less: Unrealized profits ` 40 crores × 25/100	(10)	840
4.	Employee benefits and expenses		
	Wages and salaries:		
	G Ltd.	600	
	K Ltd.	75	675
5.	Finance cost		
	Interest:		
	G Ltd.	75	
	K Ltd.	30	105
6.	Depreciation		
	G Ltd.	75	
	K Ltd.	30	105
7.	Other expenses		
	Administrative expenses		
	G Ltd.	75	
	K Ltd.	50	
		125	
	Less: Consultancy fees received by G Ltd. from K Ltd.	(5)	120
	Selling and distribution Expenses:		
	G Ltd.	100	
	K Ltd.	25	
		125	
	Less: Commission received by K Ltd. from G Ltd.	(20)	105
			225

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

Particulars		***` in lakhs***
Paid up Equity Capital		300
Free Reserves		900
	A	1,200
Investments		
In shares of subsidiaries		375
In debentures of group companies		600
	B	975
10% of A		120
Excess of Investment over 10% of A (975-120)	C	855
Net Owned Fund [(A) - (C)] (1,200 - 855)		345

Question 4

(a) H Ltd acquired 15000 shares in S Ltd. for 1,55,000 on July 1, 2022. The Balance sheet of the two companies as on 31st March, 2023 were as follows:

	H Ltd.`	***S Ltd.`***
Equity and Liabilities:		
Equity Share Capital	*9,00,000*	*2,50,000*
(Fully paid shares of ` 10 each)		
General Reserve	*1,60,000*	*40,000*
Surplus i.e., Balance in Statement of Profit and Loss	*80,000*	*25,000*
Bills payable	*40,000*	*20,000*
Trade Creditors	*50,000*	*30,000*
Total	***12,30,000***	***3,65,000***
Assets		
Machinery	*7,00,000*	*1,50,000*
Furniture	*1,00,000*	*70,000*
Investment in Equity Shares of S Ltd.	*1,55,000*	*-*
Stock-in Trade	*1,00,000*	*50,000*
Trade Debtors	*60,000*	*35,000*
Bills Receivable	*25,000*	*20,000*
Cash at Bank	*90,000*	*40,000*
Total	***12,30,000***	***3,65,000***

The following additional information is provided to you:

(i) *General reserve appearing in the Balance Sheet of S Ltd. remained unchanged since 31st March, 2022.*

(ii) *Profit earned by S Ltd. for the year ended 31st March, 2023 amounted to ` 20,000.*

(iii) *H Ltd. sold goods to S Ltd. costing ` 8,000 for ` 10,000, 25% of these goods remained unsold with S Ltd. on 31st March, 2023.*

(iv) *Creditors of S Ltd. include ` 4000 due to H Ltd. on account of these goods.*

(v) *Out of Bills payable issued by S Ltd. ` 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2023, ` 8000 worth of bills receivable in favour of its creditors.*

You are required to draw a consolidated Balance Sheet as on 31st March, 2023.

(15 Marks)

(b) *State the circumstances when Garner v/s. Murry Rule is not applicable.* ***(5 Marks)***

Answer

(a) **Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.**

as at 31st March, 2023

Particulars				**Note No.**	**(`)**
I.	**Equity and Liabilities**				
	(1)	Shareholder's Funds			
		(a)	Share Capital	1	9,00,000
		(b)	Reserves and Surplus	2	2,73,500
	(2)	**Minority Interest**		3	1,26,000
	(3)	**Current Liabilities**			
		(a)	Trade Payables	4	1,29,000
			Total		14,28,500
II.	**Assets**				
	(1)	**Non-current assets**			
		(a)	Property, Plant and Equipment	5	10,20,000
	(2)	**Current assets**			
		(i)	Inventory	6	1,49,500
		(ii)	Trade Receivables	7	1,29,000
		(iii)	Cash & cash equivalent	8	1,30,000
			Total		14,28,500

Notes to Accounts

			`
1.	**Share capital**		
	Authorised, issued, subscribed and paid up capital		
	90,000 equity shares of ` 10 each, fully paid up		9,00,000
2.	**Reserves and Surplus**		
	General Reserves	1,60,000	
	Profit and Loss Account (W.N.5)	88,500	
	Capital Reserve (W.N. 4)	25,000	2,73,500
3.	**Minority interest in S Ltd. (WN 3)**		1,26,000
4.	**Trade payables**		
	Bills Payable		
	H Ltd. 40,000		
	S Ltd. 20,000		
	60,000		
	Less: Mutual payables (7,000)	53,000	
	Trade Creditors		
	H Ltd. 50,000		
	S Ltd. 30,000		
	80,000		
	Less: Mutual owing (4,000)	76,000	1,29,000
5.	**Property, plant and equipment**		
	Machinery H Ltd. 7,00,000		
	S Ltd. 1,50,000	8,50,000	
	Furniture H Ltd. 1,00,000		
	S Ltd. 70,000	1,70,000	10,20,000
6.	**Inventory**		
	H Ltd.	1,00,000	
	S Ltd.	50,000	

	Less: Unrealized profit (2,000x 25%)				500	**1,49,500**
7.	**Trade receivables**					
	Bills receivable					
	H Ltd.		25,000			
	S Ltd.			20,000		
		45,000				
	Less: Mutual payables	(7,000)			**38,000**	
	Debtors					
	H Ltd.		60,000			
	S Ltd.			35,000		
		95,000				
	Less: Mutual owing	(4,000)			**91,000**	1,29,000
8.	**Cash & cash equivalent**					
	Cash at Bank H Ltd.				90,000	
	S Ltd.				40,000	**1,30,000**

Working Notes:

1. Percentage of holding

		No. of Shares	Percentage
Holding Co.	:	15,000	(60%)
Minority shareholders	:	10,000	(40%)
Total Shares	:	25,000	

2. Analysis of Profits

	Pre-acquisition profits and reserves of S Ltd. (`)	**Post-acquisition profits of S Ltd. (`)**
General Reserve	40,000	---
Opening balance of Profit and Loss	5,000	---
Current Year's profit (in 1:3)	5,000	15,000
	50,000	15,000
H Ltd.'s share (60%)	30,000	9,000
Minority Interest (40%)	20,000	6,000

3. Minority Interest

Paid up value of 10,000 shares @ ` 10 each	` 1,00,000
Add: Share in pre-acquisition profits and reserve (40%)	` 20,000
Add: Share in post-acquisition profits (40%)	` 6,000
	` 1,26,000

4. Capital Reserve for H Ltd.

(A)	Cost of acquiring 15,000 shares of S Ltd.	` 1,55,000
(B)	Paid up value of 15,000 shares of S Ltd. @ ` 10 each	` 1,50,000
	Add: Share in pre-acquisition profit and reserves of S Ltd.	` 30,000
		` 1,80,000
	Capital Reserve **(B-A)**	` 25,000

5. Consolidated Balance of Profits of H Ltd.

Balance as per Statement of Profit and Loss	` 80,000
Add: Share in post-acquisition profits of S Ltd.	` 9,000
Less: Unrealised Profit in unsold stock of S Ltd.	` (500)
	` 88,500

(b) The following are the circumstances when Garner vs Murray rule is not applicable:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally, a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

2. When the firm has only two partners.

3. When there is an agreement between the partners to share the deficiency in capital account of the insolvent partner.

4. When all the partners of the firm are insolvent.

Question 5

(a) VIJ Ltd. has the following capital structure as on 31st March, 2022:

Particulars		***(` In Lakhs)***
Equity share capital (Shares of ` 10 each, fully paid)		*990*
Reserve and Surplus:		
General Reserve	*720*	
Securities Premium Account	*270*	
Profit & Loss Account	*270*	
Infrastructure development Reserve	*540*	*1800*

Loan Funds	*5400*

On the recommendation of the Board of Directors, the shareholders of the company have approved on 2nd September 2022 a proposal to buy- back the maximum permissible number of equity shares, considering the sufficient funds available at the disposal of the company.

The current market value of the company's shares is ` 25 per share and in order to induce the existing shareholders to offer their shares for buy- back, it was decided to offer a price of 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum permissible number of equity shares that can be brought back in the light of the above information and also under a situation where the loan funds of the company were either ` 3600 lakh or ` 4500 lakh.

The entire buy-back is completed by 09/12/2022, show the accounting entries with full narrations in the company's books in each situation.

(b) The following information are available in the books of Bank. ***(10 Marks)***

Rebate on Bills discounted (01.04.2022) 65,500, Discount received during the year ` 1,25,000.

An analysis of the bills discounted is as follows:

	Amount	Due Date	Rate of Discount (in %)
(i)	36,000	June 7,2023	12
(ii)	34,200	June 14,2023	12
(iii)	14,000	July 19,2023	10
(iv)	14,000	August 10,2023	15
(v)	12,500	September 5,2023	13
(vi)	11,000	October 7,2023	14

You are required to:

(i) Calculate the rebate on Bills Discounted as on 31-3-2023 and show necessary journal entries.

(ii) Compute the amount of discount credited to Profit and Loss Account. ***(10 Marks)***

Answer

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

Number of shares

Particulars	**When loan fund is**		
	` 5,400 lakhs	**` 3,600 lakhs**	**` 4,500 lakhs**
Shares Outstanding Test (W.N.1)	24.75	24.75	24.75
Resources Test (W.N.2)	18.75	18.75	18.75
Debt Equity Ratio Test (W.N.3)	Nil	11.25	Nil
Maximum number of shares that can be bought back *[least of the above]*	**Nil**	**11.25**	**Nil**

Journal Entries for the Buy-Back
(applicable only when loan fund is ` 3,600 lakhs)

` in lakhs

	Particulars		Debit	Credit
(a)	Equity share capital account	Dr.	112.50	
	Securities premium account	Dr.	225.00	
	To Equity share buy- back account			337.5
	(Being cancellation of shares bought back)			
(b)	Equity share buy-back account	Dr.	337.50	
	To Bank account			337.50
	(Being buy-back of 11.25 lakhs equity shares of ` 10 each @ ` 30 per share)			
(c)	General reserve account	Dr.	112.50	
	To Capital redemption reserve account			112.50
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Notes:

1. In place of entry (a), Alternative set of entries can be given as follows:

` in lakhs

	Equity share capital A/c	Dr.	112.50	

	Premium payable on buy-back	Dr.	225.00	
	To Equity shares buy-back A/c			337.50
	(Being the amount due on buy-back of equity shares)			
	Securities Premium A/c	Dr.	225.00	
	To Premium payable on buy-back			225.00
	(Being premium payable on buy-back charged from Securities premium)			

2. In place of entry (c), Alternative set of entries can be given as follows:

` in lakhs

Securities Premium A/c	Dr.	45.00	
General Reserve A/c	Dr.	67.50	112.50
To Capital redemption reserve A/c			
(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out through free reserves)			

Working Notes:

1. Shares Outstanding Test

Particulars	***(Shares in lakhs)***
Number of shares outstanding	99
25% of the shares outstanding	24.75

2. Resource Test

Particulars	
Paid up capital (` in lakhs)	990
Free reserves (` in lakhs) (720+270+270)	1260
Shareholders' funds (` in lakhs)	2250
25% of Shareholders fund (` in lakhs)	` 562.5 lakhs
Buy-back price per share	` 30
Number of shares that can be bought back (shares in lakhs)	18.75 lakhs shares

3. Debt Equity Ratio Test

	Particulars	***When loan fund is***		
		` 5,400 lakhs	**` 3,600 lakhs**	**` 4,500 lakhs**

(a)	Loan funds (` in lakhs)	5400	3600	4500
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (` in lakhs)	2700	1800	2250
(c)	Present equity shareholders fund (` in lakhs)	2250	2250	2250
(d)	Future equity shareholder fund (` in lakhs)	N.A.	2137.5 (2250-112.5)	N.A.
(e)	Maximum permitted buy-back of Equity (` in lakhs) [(d) – (b)][1]	Nil	337.5 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ` 30 per share (shares in lakhs) (See Working Note)	Nil	11.25 (by simultaneous equation)	Nil

Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of the Companies Act, 2013.

Working Note:

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'.

Then

[1] As per section 68 of the Companies Act, 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such buy-back. In the question, it is stated that the company has surplus funds to dispose of therefore; it is presumed that buy- back is out of free reserves or securities premium and hence a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). Utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from present equit.

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

(2250 –x)-1800 = y (1)

Since 450 – x = y

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

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

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

Or 3x = y (2)

by solving the above two equations we get

x = ` 112.5 lakhs

y = ` 337.5 lakhs

(b) (i) Statement showing rebate on bills discounted

Amount	Due Date	Days after 31.3.2023		Rate of discount	Discount Amount
36,000	7.6.2023	(30+31+7)	68	12%	804.822
34,200	14.6.2023	(30+31+14)	75	12%	843.288
14,000	19.7.2023	(30+31+30+19)	110	10%	421.918
14,000	10.8.2023	(30+31+30+31+10)	132	15%	759.452
12,500	5.9.2023	(30+31+30+31+31+5)	158	13%	703.425
11,000	7.10.2023	(30+31+30+31+31+30+7)	190	14%	801.644
1,21,700					4,334.549

In the books of Bank

Journal Entries

(i)	Rebate on bills discounted Account	Dr.	65,500	
	To Discount on bills Account			65,500
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			

(ii)	Discount on bills Account	Dr.	4,334.549	
	To Rebate on bills discounted Account			4,334.549
	[Being provision made on 31st March, 2023]			
(iii)	Discount on bills Account	Dr.	1,86,165.451	
	To Profit and loss Account			1,86,165.451
	[Being transfer of discount on bills, of the year, to profit and loss account]			

(ii) Computation of amount credited to Profit and Loss A/c will be as follows:

` (1,25,000 + 65,500 – 4,334.549) = ` 1,86,165.451

Note: Amount of discount may be rounded off for different bills. In that case, the answer will be given as follows:

(i) Statement showing rebate on bills discounted

Amount	Due Date	Days after 31.3.2023		Rate of discount	Discount Amount
36,000	7.6.2023	(30+31+7)	68	12%	805
34,200	14.6.2023	(30+31+14)	75	12%	843
14,000	19.7.2023	(30+31+30+19)	110	10%	422
14,000	10.8.2023	(30+ 31+ 30+31+ 10)	132	15%	759
12,500	5.9.2023	(30+ 31+ 30+31+31+ 5)	158	13%	703
11,000	7.10.2023	(30+31+30+31+31+30+7)	190	14%	802
1,21,700					4,334

In the books of Bank

Journal Entries

(i)	Rebate on bills discounted Account	Dr.	65,500	
	To Discount on bills Account			65,500
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			

(ii)	Discount on bills Account	Dr.	4,334	
	To Rebate on bills discounted Account			4,334
	[Being provision made on 31st March, 2023]			
(iii)	Discount on bills Account	Dr.	1,86,166	
	To Profit and loss Account			1,86,166
	[Being transfer of discount on bills, of the year, to profit and loss account]			

(ii) Computation of amount credited to Profit and Loss A/c will be as follows:

` (1,25,000 + 65,500 – 4,334) = ` 1,86,166

Question 6

Answer any four of the following:

(a) *What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain.* *(5 Marks)*

(b) *Following is the Balance Sheet of Hari Ltd, which is in the hands of the liquidators:*

Balance Sheet as on 31/03/2023

Liabilities	***(`)***	***Assets***	***(`)***
Share Capital: -		*Fixed Assets*	*4,00,000*
2,000 6% Preference Shares of ` 100 each fully paid	*2,00,000*	*Inventory*	*2,40,000*
4,000 Equity Shares of ` 100 each fully paid	*4,00,000*	*Trade Receivables*	*4,80,000*
4,000 Equity Shares of ` 100 each ` 75 paid-up	*3,00,000*	*Cash in hand*	*80,000*
Loan form Bank	*2,00,000*	*Profit & Loss account*	*6,00,000*
(on security of inventory)			
Trade payables	*7,00,000*		
	18,00,000		***18,00,000***

The assets realized the following amounts (after all costs of realization). Liquidator's commission amounting to 10,000 paid out of cash in hand.

	(`)
Fixed Assets	*3,36,000*
Inventory	*2,20,000*

Trade Receivables	*4,60,000*

Calls on partly shares were made out of the amounts due on 400 shares were found to be irrecoverable.

You are required to prepare liquidator's final statement of account. ***(5 Marks)***

(c) *What are the requirements an LLP regarding Financial Disclosures, Books of Accounts, Audits, and Annual returns?* ***(5 Marks)***

(d) *ABC Ltd. has its share capital divided into Equity Shares of ` 10 each. On 1st April, 2022, the company offered 150 share option to each of its 250 employees at ` 70 per share, when the market price was ` 160 per share. Fair value per option was ` 90. The options were to be exercised between 01-03-2023 and 31-03-2023. 200 employees accepted the offer and paid ` 70 per share and the remaining options lapsed. The company closes its books on 31st March every year. You are required to show Journal entries as would appear in the books of ABC Ltd. for the year ended 31st March, 2023 with regards to employee stock options.* ***(5 Marks)***

(e) *X Ltd. had ` 1,00,000 equity share capital divided into 1,000 shares of ` 100 each out of which ` 80 per share was called up and paid up. It has 1,500 cumulative preference shares of ` 100 each fully paid up. Intangible assets include Goodwill of ` 80,000 and patents of ` 27,800. Preference dividends are in arrears of ` 33,000.*

You are required to show the entries (Ignore dates) under each of the following conditions:

(i) *If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ` 10 each of which ` 8 per share is called up and paid up.*

(ii) *If X Ltd. resolves to convert its 1,000 equity shares of ` 100 each (assume fully - paid) into ` 1,00,000 worth of stock.*

(iii) *The preference shares are to be converted into 11% unsecured debentures of ` 100 each (including arrears of dividends).*

(iv) Patents and Goodwill to be written-off. ***(5 Marks)***

Answer

(a) As per the Companies Act, 2013 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

(1) (a) the buy-back is authorised by its articles;

(b) a special resolution has been passed in general meeting of the company authorising the buy-back;

However, the above provisions do not apply where the buy-back is 10% or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors.

(c) the buy-back must be equal or less than 25% of the total paid-up capital and free reserves of the company: (Resource Test)

(d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)

(e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test)

(f) all the shares or other specified securities for buy-back are fully paid-up;

(g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;

Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.

(2) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.

(3) Where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.

(4) Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account.

(b) **Liquidator's Final Statement of Account**

	`	`		`
To Cash in hand To Assets realized:		80,000	By Liquidator's commission	10,000
Fixed assets	3,36,000		By Trade Payables	7,00,000
Inventory (2,20,000–2,00,000)	20,000		By Preference shareholders	2,00,000
Trade receivables	4,60,000	8,16,000	By Equity shareholders @ ` 10 on 4,000 shares	40,000

To Cash - proceeds of call on 3,600 equity shares @ ` 15*		54,000		
		9,50,000		9,50,000

Working Note:

Return per equity share

	`
Cash available before paying preference shareholders (` 8,96,000 – ` 7,10,000)	1,86,000
Add: Notional calls 3,600 shares (4,000-400) × ` 25	90,000
	2,76,000
Less: Preference share capital	(2,00,000)
Available for equity shareholders	76,000
Return per share = $\frac{\text{` } 76{,}000}{7{,}600\ (8{,}000\text{-}400)}$ = ` 10	
and Loss per Equity Share ` (100-10) = ` 90	

*Calls to be made @ ` 15 per share (` 90-75) on 3,600 shares.

Alternative presentation for the Working Note:

	`
Cash available after paying preference shareholders (` 8,96,000 – ` 9,10,000)	(14,000)
Add: Notional calls 3,600 shares (4,000-400) × ` 25	90,000
Available for equity shareholders	76,000
Return per share = $\frac{\text{` } 76{,}000}{7{,}600\ (8{,}000\text{-}400)}$ = ` 10	
and Loss per Equity Share ` (100-10) = ` 90	

(c) Requirements of an LLP regarding financial disclosures, books of accounts, audits and annual returns as per LLP Act:

1. Every LLP should maintain such proper books of accounts as may be prescribed relating to its affairs for each year of its existence on cash basis or accrual basis and according to the double-entry system of accounting and should maintain the same at its registered office for such period as may be prescribed;

2. Every LLP should within six months of the end of each financial year prepare a Statement of Account and Solvency for the said financial year as at the last day of the said financial year, in such form as may be prescribed, and such statement should be signed by the designated partners of the LLP;

3. Every LLP should file within the prescribed time, the Statement of Account and Solvency with the Registrar every year in such form and manner and accompanied by such fee as may be prescribed.

4. The accounts of an LLP must be audited in accordance with such rules as may be prescribed.

5. Every LLP is required to file an Annual Return which is duly authenticated with the registrar within sixty days of the closure of its financial year in such form and manner and with such fees as may be prescribed.

(d) **Journal Entries in the books of ABC Ltd**

			`	`
1.03.2023	Bank A/c (200 x 150 x ` 70)	Dr.	21,00,000	
to	Employee compensation expense A/c (200 x 150 x ` 90)	Dr.	27,00,000	
31.3.2023	To Equity share capital A/c (200 x 150 x ` 10)			3,00,000
	To Securities premium A/c (200 x 150 x ` 150)			45,00,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.2023	Profit and Loss A/c	Dr.	27,00,000	
	To Employee compensation expenses A/c			27,00,000
	(Being transfer of employee compensation expenses transfer to Profit and Loss Account)			

(e) **Journal Entries in the books of X Ltd.**

			`	`
(i)	Equity Share Capital (` 100) A/c	Dr.	80,000	
	To Equity Share Capital (` 10) A/c			80,000

	(Being the sub-division of 1,000 shares of ` 100 each with ` 80 paid up into 10,000 shares ` 10 each with ` 8 paid up by resolution in general meeting dated....)			
(ii)	Equity Share Capital (` 100) A/c	Dr.	1,00,000	
	To Equity Stock A/c			1,00,000
	(Being conversion of 1,000 fully paid Equity Shares of ` 100 into ` 1,00,000 Equity Stock as per resolution in general meeting dated…)			
(iii)	Cumulative Preference Share Capital A/c	Dr.	1,50,000	
	Capital Reduction (Reconstruction) A/c	Dr.	33,000	
	To 11% Debentures (Unsecured)			1,83,000
	(Being 1,500 cumulative preference shares of ` 100 each fully paid up converted into 11% debentures of ` 100 each (including arrears of dividends amounting ` 33,000)			
(iv)	Capital Reduction (Reconstruction) A/c	Dr.	1,07,800	
	To Goodwill			80,000
	To Patents			27,800
	(Writing off patents, goodwill)			