Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (NEW) : GROUP – II

PAPER – 5 : ADVANCED ACCOUNTING

*Question No. **1** is compulsory.*

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

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

Working Notes should form part of the answer.

(Time allowed: Three hours) **(Maximum Marks: 100)**

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

(b) From the following information, you are required to compute the basic and adjusted Earnings per share:

Net profit for 2015-16	11 lakh
Net profit for 2016-17	15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	15 per share
Last date of exercising right option	1-06-2016
Fair value of shares before right issue	21 per share

(c) A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Explain the accounting treatment as per AS 19 in the following cases:

(i) Sale price of ₹ 50 lakhs is equal to fair value.

(ii) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.

(iii) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.

(iv) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

(v) Fair value is ₹ 35 lakhs and sale price is ₹ 39 lakhs.

(d) Sun Ltd. has entered into a sale contract of ₹ 5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹ 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS 29? Explain.

(ii) Should provision be measured as the excess of compensation to be paid over the profit?

(4 parts x 5 Marks = 20 Marks)

2. (a) Paper Limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2016) and ₹ 3 on allotment (31-3-2016) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2016 and were re-allotted for payment in cash of ₹ 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form and to pass necessary journal entries to record the above events and transactions (including cash).

(b) SMM Ltd. has the following capital structure as on 31st March, 2017: ₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries. ***(8 +12 = 20 Marks)***

3. (a) The Balance Sheet of Lion Limited as on 31-03-2016 is given below:

Particulars	*Note No.*	*Amount (₹ in lakh)*
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	750

Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital	
	Authorised :	
	200 lakh shares of ₹ 10 each	2,000
	8 lakh, 8% Preference Shares of ₹ 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 400 lakh.

(6) All investments sold out for ₹ 250 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 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. ***(15 + 5 = 20 Marks)***

4. (a) From the following information as on 31st March, 2016 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of ₹ 7,00,000:

Particulars	Amount (₹)
Reserve for unexpired risk on 31st March, 2015	15,00,000
Additional reserve on 31st March, 2015	3,00,000
Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2015	1,95,000
Estimated liability in respect of outstanding claims on 31st March, 2016	2,70,000
Expenses of management (including ₹ 90,000 incurred in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000
Re-insurance recoveries	60,000

Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	50,000

(b) As on 31st March 2016, Strong Bank Ltd. has a balance of ₹ 27 crores in "rebate on bills discounted" account. The bank provides you the following further information:

(1) During the financial year ending 31st March 2017, Strong Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.

(2) Bills of exchange of ₹ 600 crores were due for realization from the acceptors/customers after 31st March 2017, the average period outstanding after 31st March 2017, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(c) A Mutual Fund raised 100 lakh on April 1, 2017 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 5 lakh. During April, 2017, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.35 lakh was in arrears. The dividend earned was ₹ 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2017 was ₹ 112 lakh.

Determine NAV per unit. ***(10 Marks +6 Marks +4 Marks = 20 Marks)***

5. (a) Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	1,200
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
	2,400	700
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017.

(b) The summarized Balance Sheet of K Ltd. for the year ended on 31st March, 2015, 2016 and 2017 are as follows:

	(₹ in thousands)		
Liabilities	31.3.2015	31.3.2016	31.3.2017
1,60,000 equity shares of ₹ 10 each, fully paid	1,600	1,600	1,600
General reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payables	600	800	1,000
	3,540	3,960	4,440
Assets			
Goodwill	1,000	800	600
Building and Machinery less, depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivables	20	160	440
Bank balance	120	200	400
	3,540	3,960	4,440

Additional information:

(a) Actual valuations were as under:

Building and machinery less, depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

(b) Capital employed in the business at market value at the beginning of 2014-15 was ₹ 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by K Ltd. is 12½%.

(c) The balance in the general reserve on 1st April, 2014 was ₹ 10 lakhs.

(d) The goodwill shown on 31.3.2015 was purchased on 1.4.2014 for ₹ 10 lakhs on which date the balance in the Profit and Loss account was ₹ 1,20,000.

(e) Goodwill is to be valued at 5 year's purchase of Super profit (Simple average method).

You are required to compute the average capital employed in each year and find out the value of goodwill. ***(12 Marks +8 Marks = 20 Marks)***

6. (a) A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(b) Explain "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

(c) Explain on 'presentation of MAT credit' in the financial statements in brief.

OR

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(d) XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹ 2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹ 2,00,000 and the balance in the Profit & Loss Account was ₹ 1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹ 40,000 and at year end, declared and paid a dividend of ₹ 60,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

You are required to compute amount of minority interest as on 1st January, 2016 and 31st December, 2016? ***(4 Parts x 5 Marks = 20 Marks)***

MOCK TEST PAPER

INTERMEDIATE (NEW) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

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

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

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

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

(b) Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(₹\ 21.00 \text{ x } 5,00,000 \text{ shares}) + (₹15.00 \text{ x } 1,00,000 \text{ shares})}{5,00,000 \text{ shares} + 1,00,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 20.00

(a) **Computation of adjustment factor**

(b) $\dfrac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \dfrac{₹\ (21.00)}{₹\ (20.00)} = 1.05$

Computation of earnings per share

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (₹ 11,00,000/5,00,000 shares)	₹ 2.20	
EPS for the year 2015-16 restated for rights issue: [₹ 11,00,000/ (5,00,000 shares x 1.05)]	₹ 2.10	
EPS for the year 2016-17 including effects of rights issue $\dfrac{₹\ 15,00,000}{(5,00,000 \text{ x } 1.05 \text{ x } 2/12) + (6,00,000 \text{ x } 10/12)}$		₹ 2.55

(c) Following will be the treatment in the given cases:

(i) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 10 lakhs (i.e. 50 – 40) in its books.

(ii) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(iii) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortised over the lease period.

(iv) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46-40) to be immediately recognised in its books and balance profit of ₹ 4 lakhs (50-46) is to be amortised/deferred over lease period.

(v) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period.

(d) (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting ₹ 1.50 crores.

2. (a) Statement showing liability of underwriters

a	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000
B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Note: In the above statement, it has been assumed that the benefit of firm underwriting is given to individual underwriter.

Journal Entries

2016				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ ₹ 2.50 per share)			
March	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			

March	Equity Share Allotment A/c (28,80,000 x ₹ 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000 x ₹ 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x ₹ 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Black (1,20,000 x ₹ 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x ₹ 5)			6,00,000
	To Securities Premium A/c (1,20,000 x ₹ 0.5)			60,000
	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3]			86,22,000
	To Black (1,20,000 x ₹ 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of ₹ 10.50 for ₹ 30 lakh shares payable to underwriters)			
March	Black A/c		6,30,000	
	White A/c		6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x ₹ 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x ₹ 5)			30,000
	(Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

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

Number of shares (in crores)

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back

(applicable only when loan fund is ₹ 3,200 crores)

			₹ in crores	
			Debit	Credit
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve / Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(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)			

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in crores)*
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (₹ in crores)	2,880
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy back price per share	₹ 30
Number of shares that can be bought back	24 crores shares

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

	Particulars	When loan fund is	
		₹ 3,200 crores	₹ 6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4 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

= (2,880 – x) – 1,600 = y

= 1280 – x =y (1)

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

$= \left(\frac{y}{30} \times 10\right) = x$ Or 3x = y (2)

by solving the above two equations we get

x= ₹ 320

y = ₹ 960

3. (a) Journal Entries in the books of Lion Ltd.

	Particulars	*Debit (₹ in lakhs)*	*Credit (₹ in lakhs)*
(i)	8% Preference share capital A/c (₹100 each) Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)		320
	To Capital Reduction A/c		80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)		

(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹ 2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹ 2 each)			
(iii)	Capital Reduction A/c	Dr.	32	
	To Equity share capital A/c (₹ 2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and Loss A/c			522
	To Trade receivables A/c (450x 40%)			180
	To Inventories-in-trade A/c (300x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

Capital Reduction Account

Dr. **Cr.**

		(₹ in lakhs)			(₹ in lakhs)
To	Equity Share Capital	32	By	Preference Share Capital	80
To	Trade receivables	180	By	Equity Share Capital	800
To	Finished Goods	240	By	Freehold Property	150
To	Profit & Loss A/c	522	By	Bank	50
To	Bank A/c	30	By	Director's Loan	210
To	Capital Reserve	286			
		1,290			1,290

Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹ 2 each		400
	8 lakhs 8% Preference shares of ₹ 80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of ₹ 2 each		322
	4 lakhs Preference Shares of ₹ 80 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realised	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)		39,255
Total Remuneration payable to Liquidator		91,505

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 = 3/103 x ₹ 13,47,750= ₹ 39,255

4. (a) Name of the Insurer: Xeta Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2016

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	26,67,500
Profit on sale of investment		30,000
Others		–
Interest and dividend (gross)		1,50,000
Total (A)		28,47,500
Claims incurred (Net)	2	20,25,000
Commission	3	50,000
Operating expenses related to insurance	4	7,50,000
Total (B)		28,25,000
Operating profit from insurance business (A) – (B)		22,500

Schedule –1 Premium earned (net)

	₹
Premium received	33,60,000
Less: Premium on reinsurance ceded	(2,25,000)
Net Premium	31,35,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(4,67,500)
Total premium earned	26,67,500

Schedule -2 Claims incurred (net)

	₹
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31st March, 2016	2,70,000
	22,20,000
Less: Claims outstanding as on 31st March, 2015	(1,95,000)
	20,25,000

Schedule -3 Commission

	₹
Commission paid	50,000

Schedule-4 Operating expenses related to Insurance Business

	₹
Expenses of management (₹ 8,40,000 – ₹ 90,000)	7,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		₹
Reserve for Unexpired Risk as on 31st March, 2016	15,67,500	
Additional Reserve as on 31st March, 2016	7,00,000	22,67,500
Less: Reserve for Unexpired Risk as on 31st March, 2015	15,00,000	
Additional Reserve as on 31st March, 2015	3,00,000	(18,00,000)
		4,67,500

(b) In the books of Strong Bank Ltd.

Journal Entries

Particulars		*Debit (₹)*	*Credit (₹)*
Rebate on bills discounted A/c	Dr.	27	
To Discount on bills A/c			27
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')			
Bills purchased and discounted A/c	Dr.	4,000	
To Discount on bills A/c			240
To Clients A/c			3,760
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	18	
To Rebate on bills discounted A/c			18
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			
Discount on bills A/c	Dr.	249	
To Profit and Loss A/c			249
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)			

Working Notes:

1. Discount received on the bills discounted during the year

   ₹ 4,000 crores $\times \frac{15}{100} \times \frac{146}{365}$ = ₹ 240 crores

2. Calculation of rebate on bill discounted

   ₹ 600 crores $\times \frac{15}{100} \times \frac{73}{365}$ = ₹ 18 crores

   (It is assumed that discounting rate of 15% is used for the bill of ₹ 600 crores also)

3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c

Discount on bills A/c

₹ in crores

Date	Particulars	Amount	Date	Particulars	Amount
31 March 2017	To Rebate on bills discounted	18	1st April, 2016	By Rebate on bills discounted b/f	27
"	To Profit and Loss A/c (Bal. Fig.)	249	2016-17	By Bills purchased and discounted	240
		267			267

(c)

	₹ in lakhs	₹ in lakhs	
Opening bank balance [₹ (100 – 90 - 5) lakhs]	5.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.20	46.20	
Less: Cost of securities	28.20		
Fund management expenses [₹ (4.50–0.35) lakhs]	4.15		
Capital gains distributed [75% of ₹ (40.00 – 38.00) lakhs]	1.50		
Dividends distributed (75% of ₹ 1.20 lakhs)	0.90	(34.75)	
Closing bank balance		11.45	
Closing market value of portfolio		112	
		123.45	
Less: Arrears of expenses		(0.35)	
Closing net assets		123.10	
Number of units			10,00,000
Closing Net Assets Value (NAV)			₹ 12.31

5. (a) Consolidated Profit & Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017

Particulars	*Note No.*	*₹ in Lacs*
I. Revenue from operations	1	5,865
II. Total revenue		5,865
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	535
Total expenses		1,769
IV. Profit before Tax(II-III)		4,096

V. Tax Expenses	8	1,400
VI. Profit After Tax		2,696
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,696
Dividend paid		
H Ltd.	1,200	
S Ltd.	150	
	1,350	
Less: Share of H Ltd. in dividend of S Ltd.		
80% of ₹ 150 lacs	(120)	(1,230)
Profit to be transferred to consolidated balance sheet		1,466

Notes to Accounts

		₹ *in Lacs*	₹ *in Lacs*
1.	Revenue from Operations		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	1,000	
		6,000	
	Less: Inter-company Sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	(10)	5,865
2.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	200	
		1,200	
	Less: Unrealized profits ₹ 24 lacs × $\frac{20}{120}$	(4)	1,196
			7,061
3.	Cost of Material purchased/consumed		
	H Ltd.	800	
	S Ltd.	200	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	(120)	880
	Direct Expenses		
	H Ltd.	200	
	S Ltd.	100	300
			1,180
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	

	S Ltd.	150	950
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	100	
		300	
	Less: Consultancy fees received by H Ltd. from S Ltd.	(5)	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	50	
		250	
	Less: Commission received from S Ltd. from H Ltd.	(10)	240
			535
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	50	150
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	50	150
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	200	1,400

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

	31.3.2015 ₹	*31.3.2016* ₹	*31.3.2017* ₹
Goodwill	10,00,000	8,00,000	6,00,000
Building and Machinery (Revaluation)	18,00,000	20,00,000	22,00,000
Inventory (Revalued)	12,00,000	14,00,000	16,00,000
Trade Receivables	20,000	1,60,000	4,40,000
Bank Balance	1,20,000	2,00,000	4,00,000
Total Assets	41,40,000	45,60,000	52,40,000
Less: Trade Payables	(6,00,000)	(8,00,000)	(10,00,000)
Closing Capital	35,40,000	37,60,000	42,40,000
Add: Opening Capital	36,60,000	35,40,000	37,60,000
Total	72,00,000	73,00,000	80,00,000
Average Capital	36,00,000	36,50,000	40,00,000

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

2. **Valuation of Goodwill**

		31.3.2015	31.3.2016	31.3.2017
(i)	**Future Maintainable Profit**	31.3.2015	31.3.2016	31.3.2017
	Net Profit as given	4,20,000	6,20,000	8,20,000
	Less: Opening Balance	(1,20,000)	(1,40,000)	(1,60,000)
	Adjustment for Valuation of Opening Inventory	-	(2,00,000)	(2,00,000)
	Add: Adjustment for Valuation of closing inventory	2,00,000	2,00,000	2,00,000
	Goodwill written off	-	2,00,000	2,00,000
	Transferred to General Reserve	2,00,000	2,00,000	2,00,000
	Future Maintainable Profit	7,00,000	8,80,000	10,60,000
	Less: 12.50% Normal Return	(4,50,000)	(4,56,250)	(5,00,000)
(ii)	**Super Profit**	2,50,000	4,23,750	5,60,000

(iii) Average Super Profit = ₹ (2,50,000+4,23,750+5,60,000) ÷3 = ₹ 4,11,250

(iv) Value of Goodwill at five years' purchase= ₹ 4,11,250 × 5 = ₹ 20,56,250.

6. **(a) Journal Entries in the books of company**

Date	Particulars		Dr. ₹	Cr. ₹
1-3-X2 to 31-3-X2	Bank A/c	Dr.	2,40,000	
	Employees compensation expenses A/c	Dr.	4,32,000	
	To Equity Share Capital A/c			48,000
	To Securities Premium A/c			6,24,000
	(Being allotment to employees 4,800 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)			
31-3-X2	Profit and Loss account	Dr.	4,32,000	
	To Employees compensation expenses A/c			4,32,000
	(Being transfer of employees compensation expenses)			

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140 – ₹ 50 = ₹ 90 per share = ₹ 90 x 4,800 = ₹ 4,32,000/- in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = ₹ 50 – ₹ 10 = ₹ 40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 x 4,800 = ₹ 6, 24,000/- in total.

(b) 'Non-performing asset' means:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

Note: As per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the above six months criteria for the assets covered under (a) to (f) is 4 months for the financial year ending March 31, 2017; and from next year ending March 31, 2018 and thereafter it will be 3 months.

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

Note: The above twelve months criteria for the assets covered under (g) is 6 months for the financial year ending March 31, 2017 and from next year ending March 31, 2018 and thereafter it will be 3 months.

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset

(c) Presentation of MAT credit in the financial statements:

Balance Sheet: Where a company recognizes MAT credit as an asset on the basis of the considerations specified in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961, the same should be presented under the head 'Loans and Advances'* since, there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in paragraph 11 of the Guidance Note.

Profit and Loss Account: According to explanation given for paragraph 21 of Accounting Standard 22, "Accounting for Taxes on Income" in the context of Section 115JB of the Income-tax Act, 1961, MAT is the current tax. Accordingly, the tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the statement of profit and loss in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in this Guidance Note, the said asset should be created by way of a credit to the statement of profit and loss and presented as a separate line item therein.

OR

In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

(d) Total dividend paid = ₹ 60,000

Out of post-acquisition profit = ₹ 40,000

Out of pre-acquisition profit = ₹ 20,000

** As per Schedule III to the Companies Act, 2013, it should be presented under the head 'Non-current Assets' sub head 'Long-term Loans and Advances'.*

Hence, 2/3rd of dividend received by XYZ will be credited to P & L and 1/3rd will be credited to Investment.

XYZ Ltd.'s share of dividend = ₹ 60,000 X 80% = ₹ 48,000

In the books of XYZ Ltd.

	₹	₹
Bank A/c Dr.	48,000	
To Profit & Loss A/c		32,000
To Investments in ABC Ltd.		16,000
(Dividend received from ABC Ltd. 1/3 credited to investment A/c being out of capital profits – as explained above)		
Goodwill on Consolidation:		₹
Cost of shares less dividend out of capital profits		2,64,000
Less: Face value of capital i.e. 80% of capital	1,60,000	
Share of capital profits [1,20,000-20,000 (dividend portion out of pre-acquisition profits)] X 80 %	80,000	2,40,000
Goodwill		24,000
Minority interest on:		64,000
1st January, 2016: 20% of ₹ 3,20,000 [2,00,000 + 1,20,000]		
31^{st} December, 2016: 20% of ₹ 3,00,000 [2,00,000 + 1,20,000 + 40,000 – 60,000]		60,000