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INTERMEDIATE - EDUCATION

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USE CODE : JUN20

Single Subject	Single Group	Both Groups
@ 3,540	@ 7,670	@ 15,340

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USE CODE : NOV20

Single Subject	Single Group	Both Groups
@ 5,900	@ 11,800	@ 21,240

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Test Paper 3 - Solution

National Test Series

Subject: Advanced Accounting

Marks: 100 Marks **Duration:** 3 Hrs.

Question 1.

(A) With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year-end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year-end claiming damages of ₹ 20 lakhs.

(5 Marks)

Solution:

According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard 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.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is non adjusting in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date.

However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

(B) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount on lacs)		
Particulars	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year-wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

(5 Marks)

Solution:

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

Particulars	Up to the reporting date	Recognized in previous years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132

Profit	1,000	740	260

Working Note:

Particulars	Year 1	Year 2	Year 3
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6,068	8,200
Degree of completion (B/A)	26%	74%	100%

(C) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000.

The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(5 Marks)

Solution:

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

Value of machinery

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

Calculation of finance charges for each year

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

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor	
₹ 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	₹ 9,79,405
Present value of guaranteed residual value	₹ 27,1615
₹ 50,000 x (0.5523)	₹ 10,07,020

(D) From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019 :

Net Profit for the year after tax	₹ 75,00,000
Number of Equity Shares of ₹ 10 each outstanding:	₹ 10,00,000

1,00,000, 8% Convertible Debentures of ₹ 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30%.

(5 Marks)

Solution:

Computation of basic earnings per share Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 75,00,000 / 10,00,000 = ₹ 7.50 per share

Computation of diluted earning per share =

$$\frac{Adjusted\,net\,profit\,for\,the\,current\,year}{Weighted\,Average\,No.of\,Equity\,Shares}$$

Adjusted net profit for the current year

Particulars	₹
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of ₹ 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= ₹ 80,60,000/ 11,10,000

= ₹ 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

Question 2.

(A) Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs. On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

(10 Marks)

Solution:

In the books of Alpha Limited

Journal Entries

Date 2017	Particulars		Dr.	Cr.
			(₹ in lakhs)	
April 1	Bank A/c	Dr.	150	
	To Inmvestment A/c			148
	To Profit and loss A/c			2
	(Being investment sold on profit)			
April 5	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To equity share buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity share buy back A/c	Dr.	900	
	To bank A/c			900
	(Being the payment made on account of buyback of 60 Lakh Equity Shares)			
April 5	General Reserve A/c	Dr.	530	
	Profit and loss A/c	Dr.	70	
	To Capital redemption reserve A/c			600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			

Balance sheet (After buy back)

Particulars	Note No	Amount (₹ in Lakhs)
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share capital	1	1,800
(b) Reserves and surplus	2	1,322
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		**6,500**
II. Assets		
(1) Non-current assets		
(a) Property, plant & equipment		
(i) Tangible Assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		500
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

				(₹ in lakh)
1.	**Share capital**			
	Equity share capital (fully paid up shares of ₹ 10 each)			1,800
2.	**Reserves and surplus**			
	General reserve	530		
	Less: Transfer to CRR	(530)		
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Transfer due to buy-back of shares from gen. res.	530	1000	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit and loss A/c	340		

	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	1,322
3.	**Tangible assets**			
	Machine		3,600	
	Furniture		450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

(B) The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31-3-20X1:

	P Ltd. (Rs. In Lakhs)	**V Ltd. (Rs. In Lakhs)**
Liabilities		
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	**12,500**
Assets		
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50

	<u>33,400</u>	<u>12,500</u>

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd.	V Ltd.
	(Rs. in Lakhs)	(Rs. in Lakhs)
Trade payables		
Bills payables	120	-
Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>
Trade receivables		
Debtors	2,120	1,020
Bills Receivables	-	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(10 Marks)

CONCEPT EDUCATION

USE CODE : JUN20

Single Subject @ 3,540

Single Group @ 7,670

Both Groups @ 15,340

Solution:

Books of P Ltd.

Journal Entries

		Dr.	Cr.
		(Rs. in Lacs)	**(Rs. in Lacs)**
Business Purchase A/c	Dr	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and machinery	Dr.	5,000	
furniture & Fittings	Dr.	1,700	
Inventories	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at bank	Dr.	609	
Bills receivable	Dr.	80	
To foreign project Reserve			310
To General Reserve (3,200 - 3,000)			200
To profit and loss A/c (825-50*)			775
To Liability of 12% Debentures			1,000
To creditors			463
To provisions			702
To business purchase			9,000
(Being assets & Liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To equity share capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit and Loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% Debentures discharged by issue of 13% debentures)			
Bills payable A/c	Dr.	80	
To Bills Receivables A/c			80
(Cancellation of muture owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Property, plant & equipment		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to account

		Rs.
1	**Share Capital**	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	**24,000**
2	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**
3	**Long-term borrowing**	
	Secured	
	13% Debentures	1,000
4	**Tangible assets**	
	Land & Buildings	6,000

	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = Rs. 6,000 lacs × 3/2 = Rs. 9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

Question 3.

(A) The Balance Sheet of A & Co. Ltd. as on 31-12-20X1 is as follows:

Assets	**₹**	**₹**
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit and Loss Account		5,35,000
Total		**21,42,500**
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000	
75,000 Equity Shares of ₹ 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	22,500	3,97,500

Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	1,00,000	5,95,000
Total		21,42,500

The Court approved a Scheme of re-organization to take effect on 1-1-20X1, whereby:

(i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.

(iii) Accrued interest on debentures to be paid in cash. (iv) Debenture-holders agreed to take over freehold property, book value ₹1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(iv) Patents and Goodwill to be written off.

(v) Inventory to be written off by ₹ 65,000.

(vi) Amount of ₹ 68,500 to be provided for bad debts.

(vii) Remaining freehold property to be re-valued at ₹ 3,87,500.

(viii) Trade Investments be sold for ₹ 1,40,000.

(ix) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.

(x) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xi) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

(10 Marks)

Solution:

Journal of A & Co. Ltd.

	Particulars	Dr.	Cr.
		₹	₹
20X1 Dec. 31	Equity share capital A/c (₹ 10) Dr.	7,50,000	
	To capital reduction A/c		6,00,000
	To Equity share capital A/c (₹ 2)		1,50,000
	6% Cum. Preference share capital A/c (₹ 100) Dr.	4,00,000	
	To Capital Reduction A/c		1,00,000

	To Pref. share capital A/c (₹ 75)		3,00,000
	(Reduction of preference shares of ₹100 each to shares of ₹ 75 each as per reconstruction scheme)		
20X1 Dec. 31	Freehold Property A/c Dr.	82,500	
	To Capital Reducation A/c		82,500
	(Appreciation in the value of property: Book Value — Revalued Figure ₹ 1,00,000 — ₹ 1,20,000 ₹ 3,25,000 — ₹ 3,87,500 Total ₹ 4,25,000 — ₹ 5,07,500 Profit on revaluation: ₹ 82,500)		
"	6% Debentures A/c Dr.	1,20,000	
	To Free hold property A/c		1,20,000
	(Claims of debenture-holders, in part, in respect of principle discharged by transfer of freehold property vide scheme of reconstruction)		
"	Accrued Interest A/c Dr.	22,500	
	To Bank a/c		22,500
	(Debenture interest paid)		
"	Bank A/c Dr.	1,30,000	
	To 8% Debentures a/c		1,30,000
	(8% Debentures issued for cash)		
"	Bank A/c Dr.	1,40,000	
	To trade investment A/c		55,000
	To Capital Reduction A/c		85,000
	(Sale of Trade Investment for ₹1,40,000 cost being ₹55,000; profit credited to Capital Reduction Account)		
"	Directors' Loan A/c Dr.	1,00,000	
	To equity share capital A/c		90,000

	To Bank A/c		5,000
	To Capital Reduction A/c		5,000
	(Directors' loan discharged by issue of equity shares of ₹90,000, cash payments of ₹ 5,000 and surrender of ₹5,000, vide Scheme of Reconstruction)		
Dec. 31	Capital Reduction Account Dr.	24,000	
	To Equity share capital Account		24,000
	(Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amount due, ₹ 96,000)		
"	Capital Reduction A/c Dr.	8,48,500	
	To Patents		37,500
	To Goodwill to inventory		1,30,000
	To Provision for Doubtful Debts		65,000
	To Bank		12,500
	To Profit and loss Account		5,35,000
	(Writing off patents, goodwill, profit and loss account and reducing the value of stock, making the required provision for doubtful debts and payment for cancellation of capital commitments)		

Balance Sheet of A & Co. Ltd. (And Reduced) as on 1st January, 20X2

		Particulars	Notes	₹
1		**Equity and Liabilities**		
		Shareholders' funds		
	a	Share capital	1	5,64,000
2		**Non-current liabilities**		
	a	Long-term borrowings	2	3,85,000
3		**Current liabilities**		
	a	Trade Payables		3,00,000

	b	Short term provision	3	68,500
		Total		**13,17,500**
		Assets		
1		**Non-current Assets**		
	a	Property, plant & equipment		
		Tangible Assets	4	4,37,500
		Intangible assets	5	-
2		**Current Assets**		
	a	Trade Receivables		3,60,000
	b	Trade Receivables	6	4,85,000
	c	Cash and Cash equivalents		35,000
		Total		**13,17,500**

Notes to Accounts

1	**Share Capital**		
	Equity share capital		2,64,000
	1,32,000 Equity shares of ₹ 2 each (of the above 45,000 shares have been issued for consideration other than cash)		
	Preference share capital		
	4,000 6% Preference shares of ₹ 75 each		3,00,000
	Total		**5,64,000**
2	**Long-term borrowings**		
	Secured		
	6% Debentures		2,55,000
	8% Debentures		1,30,000
	Total		**3,85,000**
3	**Short term provision**		
	Provision for doubtful debt		68,500
4	**Tangible assets**		
	Freehold property	4,25,000	
	Add: Appreciation under scheme of Reconstruction	82,500	
	Less: Disposed of	(1,20,000)	3,87,500
	Plant		50,000
	Patents	37,500	
	Less: Written off under scheme of Reconstruction	(37,500)	-

	Net carrying value		<u>4,37,500</u>
5	**Intangible assets**		
	Goodwill	1,30,000	
	Less: Written off under scheme of Reconstruction	(1,30,000)	
	Net carrying Value	-	-
6	**Trade receivables**		
	Trade Receivables		4,85,000

(B) Virat Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2018:

	Particulars	**₹**	**₹**
	Equity and liabilities		
(1)	Shareholders' Funds:		
	Share capital 10,000, 12% pref. shares of ₹100 each fully paid up	10,00,000	
	1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	
	50,000 equity shares of ₹ 10 each, ₹8 paid up	4,00,000	24,00,000
(b)	Reserves and surplus		
	Profit & Loss A/c. (Dr. Balance)		(3,50,000)
	Non-current Liabilities:		
(2)	12% Debentures	15,00,000	
	Loan on Mortgage	4,50,000	19,50,000
	Current Liabilities:		
(3)	Bank Overdraft	2,75,000	
	Trade Payables	7,30,000	10,05,000
	Total		50,05,000
	Assets:		
(1)	Non-Current Assets:		
	Property, plant & equipment - Land & Buildings		6,00,000
(2)	Current assets: Sundry Current assets		44,05,000
	Total		50,05,000

The mortgage loan was secured against the Land & Buildings. Debentures were secured by a floating charge on all the assets of the company. The debenture holders appointed a Receiver. The company being voluntarily wound up, a liquidator was also appointed. The Receiver was entrusted with the task of realizing the Land & Buildings which fetched ₹ 7,50,000. Receiver also took charge of Sundry current assets of value ₹ 30,00,000 and sold them for ₹ 28,75,000. The Bank overdraft was secured by a personal guarantee of the directors who discharged their obligations in full from personal resources. The costs of the Receiver amounted to ₹ 10,000 and his remuneration ₹ 15,000.

The expenses of the liquidator was ₹ 17,500 and his remuneration was decided at 2% on the value of the assets realised by him. The remaining assets were realised by liquidator for ₹ 12,50,000. Preference dividend was in arrear for 2 years. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.

Prepare the accounts to be submitted by the Receiver and the Liquidator.

(10 Marks)

Solution:

Receiver's Receipts and Payments Account

		₹		₹
Sundry Assets realized		28,75,000	Costs of the Receiver	10,000
Surplus received from Mortgage			Remuneration to Receiver	15,000
Sale Proceeds of land and building	7,50,000		Debentures holders Principal*	 15,00,000
Less: Applied to Discharge	(4,50,000)	3,00,000	Surplus transferred to the Liquidator	16,50,000
		31,75,000		31,75,000

Note : * Assumed that interest on debentures has already been paid before winding up proceedings.

Liquidator's Final Statement of Account

Particulars	₹	Particulars	₹
Surplus received from Receiver	16,50,000	Cost of Liquidation (legal exp.)	17,500
Assets Realized	12,50,000	Remuneration to Liquidator (12,50,000 x 2%)	25,000
Calls on partly paid shareholders		Unsecured Creditors: for Trade	7,30,000
		Directors for payment of Bank O/D	2,75,000
		Preferential Shareholders: Capital Arrears of Preference Dividends	 10,00,000 2,40,000
		Equity shareholders Return of money to contributors to holders 1,00,000 shares at ₹ 4.75 50,000 shares at ₹ 2.75	 4,75,000 1,37,500
	29,00,000		**29,00,000**

Working Note :

Amount to be paid or received from Equity shareholders	₹
Total Equity share capital paid up	14,00,000
Less: Surplus before call from Equity Shares (29,00,000 — 22,87,500)	(6,12,500)
Loss to be borne by 1,50,000 shares	7,87,500
Loss per share = (7,87,500/ 1,50,000 shares)	5.25
Hence, Refund to Equity shareholders of 1,00,000 shares of ₹ 10 fully paid up	4.75
Refund to Equity shareholders of 50,000 shares of ₹ 8 paid up	2.75

Question 4.

(A) From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 20X1:

Items	**₹ 000**
Interest on cash credit	18,20
Interest on overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Commission on letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
loss on exchange transactions	52
Interest paid on deposit	27,20
Auditors' fees and allowances	1,20
Directors' fees and allowance	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Payment to provident fund	2,80
Printing and stationery	1,40
Repairs and maintenance	50
Postage, telegrams, telephones	80

Other Information:

(i)	Interest on NPA is as follows		
		Earned (₹ '000)	Collected (₹ '000)
	Cash credit	8,20	400
	Overdraft	450	1,00
	Term Loans	750	2,50
(ii)	Classification of Non-Performing advance ('000 ₹)		
	Standard		30,00
	Sub-standard		11,20
	Doubtful assets not covered by security		2,00
	Doubtful assets covered by securities for one year		50
	Loss Assets		2,00
(iii)	Investments		27,50

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-20X1.

(10 Marks)

Solution:

KC Bank
Profit and Loss Account
For the year ended 31st March, 20X1

	Particulars	**Schedule**	**(₹ '000') Year ended 31-3-20X1**
I	**Income**		
	Interest earned	13	38,30
	Other income	14	2,50
			40,80
II	**Expenditure**		
	Interest expended	15	27,20
	Operating expenses	16	23,40
	Provisions and Contingencies		6,80
			57,40
III	**Profit/Loss**		(16,60)
IV	**Appropriations**		Nil

Schedule 13 - Interest Earned

	Particulars	**Year ended 31-3-20X1**	
			(₹ '000')
I	Interest/discount on advances/bills		
	Interest on cash credit ₹ (18,20-420)	14,00	
	Interest on overdraft ₹ (750-350)	4,00	
	Interest on term loans ₹ (15,40-500)	10,40	28,40
II	Income on investments		8,40
III	Interest on balance with RBI		1,50
			38,30

Interest on NPA is recognised on cash basis, hence excess reduced

Schedule 14 - Other Income

	Particulars		Year ended 31-3-20X1 (₹ '000')
I	Commission, Exchange and Brokerage		
	Commission on remittances and transfer	75	
	Commission on letter of credit	1,18	
	Commission on Government business	82	2,75
II	Profit on sale of Land and Building		27
III	Loss on Exchange Transactions		(52)
			2,50

Schedule 15 - Interest Expended

	Particulars	Year ended 31-3-20X1
I	Interest on Deposits	27,20

Schedule 16 - Operating Expenses

	Particulars		Year Ended 31-3-20X1
I	Payment and provision for employees		
	Salaries, allowances and bonus	12,40	
	Provident Fund Contribution	2,80	15,20
II	Printing and Stationery		1,40
III	Advertisement and publicity		1,80
IV	Directors' fees, allowances and expenses		2,50
V	Auditors' fees and expenses		1,20
VI	Postage, telegrams, telephones etc.		80
VII	Repairs and maintenance		50
			23,40

Working Note:

Provisions and contingencies			**(₹ '000)**
Provision for NPA :			
Standard	3,000 × 0.40%		12
Sub-standard	1,120 × 15%*		1,68
Doubtful not covered by security	200 × 100%		2,00
Doubtful covered by security for one year	50 × 25%		12.5

Loss Assets	200 × 100%		2,00
			592.5
Depreciation on current investments			
Cost (75% of 27,50)		2,062.50	
Less : Market value		(1,975.00)	87.5
			680.00

Note: 25% of the total investments are held to maturity. In the case of Held to Maturity investments the valuation is done at cost and these are not marked to market value generally. Hence, depreciation on investments has been calculated only on other investments which can either be Held for Trading (HFT) or Available for Sale (AFS)

(B) Peoples Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount	
		(₹ in crore)	(₹ in crore)
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

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

(5 Marks)

CONCEPT EDUCATION

USE CODE : NOV20

Single Subject @ 5,900

Single Group @ 11,800

Both Groups @ 21,240

Solution:

On the basis of the information given, in respect of hire purchase and leased assets, additional 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 percent of the net book value 10% x 2,410	241
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,280	512
(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 647	452.90
	Total	1,205.90

(C) A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

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

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

You are required to determine the amortization method in line with AS 26. **(5 Marks)**

Solution:

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

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

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

Question 5.

(A) From the following summarized balance sheets of Kedar Ltd. and its subsidiary Vijay Ltd. drawn up at 31st March, 2019, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1 st April, 2018.

(ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2018 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of Kedar Ltd. and Vijay Ltd. as on 31st March, 2019

Liabilities	Kedar Ltd. ₹	Vijay Ltd. ₹	Assets	Kedar Ltd. ₹	Vijay Ltd. ₹
Equity and Liabilities			Non-current asset		
Shareholders funds			Fixed assets		
Share capital			Machinery	7,50,000	2,25,000
Share of ₹ 100 each	15,00,000	2,50,000	Furniture	3,75,000	42,500
Reserves	5,00,000	1,87,500	Other non-current assets	11,00,000	3,75,000
Profit and Loss			Non- current Investments		
Account	2,50,000	62,500	Shares in Vijay Ltd:		
Trade Payables	3,75,000	1,42,500	2000 shares at ₹ 200 each	4,00,000	-
	26,25,000	6,42,500		26,25,000	6,42,500

(10 Marks)

Solution:

Consolidated Balance Sheet of Kedar Ltd. and its Subsidiary Vijay Ltd.

as at 31st March, 2019

Particulars	Note no.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		15,00,000
(a) Share Capital		
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		**29,99,375**
II. Assets		
(1) Non-current assets		
(a) (i) Property, Plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		**29,99,375**

Notes to Accounts

1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reverse (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	5,17,500
	Vijay Ltd.		1,42,500	
3.	**Property, Plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	
	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4	**Intangible assets**			
	Goodwill [WN 6]			30,000
5	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

1. Pre-acquisition profits and reserves of Vijay Ltd.	₹
Reserves	62,500
Profit and Loss Account	37,500
	1,00,000

Kedar Ltd.'s = 4/5 × 1,00,000	80,000
Minority Interest = 1/5 × 1,00,000	20,000
2. Profit on revaluation of assets of Vijay Ltd.	-
Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
Less: Loss on Furniture ₹ (50,000 – 37,500)	12,500
Net Profit on revaluation	1,25,000
Kedar Ltd.'s share 4/5 × 1,12,500	90,000
Minority Interest 1/5 × 1,12,500	22,500
3. Post-acquisition reserves of Vijay Ltd.	-
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
Minority interest 1/5 × 25,000	25,000
4. Post -acquisition profits of Vijay Ltd.	-
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
	26,875
Less: Under depreciation on machinery @ 10% on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
Adjusted post-acquisition profits	14,375
Kedar Ltd.'s share 4/5 × 14,375	11,500
Minority Interest 1/5 × 14,375	2,875
5. Minority Interest	-
Paid-up value of (2,500 – 2,000) = 500 shares	-
held by outsiders i.e. 500 × ₹ 100	0,000
Add: 1/5th share of pre-acquisition profits and reserves	20,000
1/5th share of profit on revaluation	22,500
1/5th share of post-acquisition reserves	25,000
1/5th share of post-acquisition profit	2,875
	1,20,375
6. Cost of Control or Goodwill	
Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
Add: 4/5th share of pre-acquisition profits and reserves	80,000
4/5th share of profit on the revaluation	90,000
Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

(B) On 31st March 20X2, Sri Raman acquires on payment of ₹ 80,000 the business of M/s Gupta and Singh taking over at book value the following assets and liabilities :

Particulars	₹
Debtors	35,000
Furniture	3,000
Stock	46,000
Creditors	10,000

There was no change between 1st January, 20X2 and 31st March, 20X2 in the book value of the assets and liabilities not taken over.

The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 80,000 made by Sri Raman. From the following balance sheet and trial balance prepare Business Purchase Account, Profit and Loss Account for the year ended 31st December, 20X2 and Balance Sheet at that date.

Balance Sheet as at December, 20X1

Liabilities		₹	Assets	₹
Capital Accounts			Furniture	3,000
Sri Gupta	30,000		Investments	5,000
Sri Singh	20,000	50,000	Insurance Policy	2,000
Bank Loan		18,000	Stock	40,000
Creditors		12,000	Debtors	30,000
		80,000		**80,000**

On 31st December 20X2 the trial balance is:

Particulars	(₹)	(₹)
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance Policy	2,000	
Business Purchase Account	80,000	
Bank Loan		18,000
Capital :		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000
Purchases	3,20,000	

Expenses	12,000	
Sales		4,00,000
	5,13,000	**5,13,000**
Closing Stock ₹ 50,000		

(10 Marks)

Solution:

Business Purchase Account

20X2	₹	20X2	₹
Dec. 31			
To Balance b/d	80,000	By Bank Loan	18,000
To Investments	5,000	By Gupta's Capital A/c	30,000
To Insurance Policy	2,000	By Singh's Capital A/c	20,000
		By Goodwill	6,000
		By Profit & Loss A/c	13,000
		(Balancing figure, profit upto 31st March, 20X2)	
	87,000		**87,000**

Profit & Loss Account of Raman for the year ended 31st December, 20X2

Particulars	₹	Particulars	₹
To opening Stock	40,000	By sales	4,00,000
To purchases	3,20,000	By closing stock	50,000
To expenses	12,000		
To Business purchase	13,000		
(profit upto 31st March)			
To Net profit			
Raman's Capital A/c	65,000		
	4,50,000		4,50,000

Balance Sheet of Raman as on 31st December, 20X2

Liabilities		₹	Assets	₹
Raman's Capital A/c	30,000		Goodwill	6,000
Add : Profit	<u>65,000</u>	95,000	Furniture	3,000
Sundry Creditors		15,000	Stock in trade	50,000
			Sundry Debtors	48,000

			Cash at Bank	3,000
		1,10,000		**1,10,000**

Working Notes:

(1) Goodwill

Particulars	**₹**
Value of Assets taken over	
Stock	46,000
Debtors	35,000
Furniture	3,000
	84,000
Less : Creditors	(10,000)
Net assets	74,000
Goodwill (Balancing figure)	6,000
Purchase Consideration	80,000

(2) Increase in net assets upto 31st March 20X2

Particulars	**as on 1st January ₹**	**as on 31st March ₹**
Debtors	30,000	35,000
Stock	40,000	46,000
Furniture	3,000	3,000
	73,000	84,000
Less : Creditors	(12,000)	(10,000)
	61,000	74,000
Profit, equal to net increase	13,000	–
	74,000	**74,000**

Question 6.

(A) On 1st April, 2019, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30th, April 2019. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

Up to 30th April, 2019, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. You are required to record the issue of shares in the books of the company under the aforesaid plan. **(5 Marks)**

Solution:

Fair value of an option = ₹ 28

Difference between Fair value and Issue Price =₹ 28 – ₹ 25 = 3.

Number of employees accepting the offer = 400 employees x 50% = 200 employees

Number of shares issued = 200 employees x 100 shares/employee = 20,000 shares

Employee Compensation Expenses recognized in 2019-20 =20,000 shares x ₹ 3 = ₹ 60,000

Securities Premium A/c = ₹ 28 – 10 = ₹ 18 per share = 20,000 x 18 = ₹ 3,60,000

Journal Entry

Dtae	Particulars	₹	₹
30/04/2019	Bank (20,000 shares x ₹ 25) Dr.	5,00,000	
	Employees compensation expense A/c Dr.	60,000	
	To Share Capital		2,00,000
	To Securities Premium		3,60,000
	(Being stock purchase option accepted by 200 employees for 100 shares each at ₹ 25 per share on a Fair Value of ₹ 28 per share)		

Note: Employees compensation expenses amounting ₹ 60,000 will ultimately be charged to profit & loss account.

(B) X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as at 31st March, 20X1 :

Balance Sheet as at 31st March, 20X1

Liabilities	₹	Assets	₹
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	3,20,000		
	13,10,000		**13,10,000**

Partners of the firm decided to dissolve the firm on the above said date.

Fixed assets realised ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realisation amounted to ₹ 6,000.

You are required to prepare:

(i) Realisation account;

(ii) Partners' capital account; and

(iii) Cash account. **(5 Marks)**

Solution:

(i) Realisation Account

	₹		₹
To Fixed assets	5,00,000	By Creditors	3,20,000
To Stock in trade	3,00,000	By Cash (5,20,000 + 4,40,000)	9,60,000
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000
To Cash - expenses	6,000	By Loss transferred to partners' capital accounts	
To Cash – Creditors (3,20,000 x 95%)	3,04,000	X	35,555
		Y	26,667
		Z	17,778
	16,10,000		**16,10,000**

(ii) Partners' Capital Accounts

	X	Y	Z		X	Y	Z
	₹	₹	₹		₹	₹	₹
To Realisation Account	35,555	26,667	17,778	By Balance b/d	4,00,000	3,00,000	2,00,000
To Realisation Account	-	2,50,000	-	By General Reserve	40,000	30,000	20,000
Cash	4,04,445	53,333	2,02,222				
	4,40,000	**3,30,000**	**2,20,000**		**4,40,000**	**3,30,000**	**2,20,000**

(iii) Cash Account

	₹		₹
To Balance b/d	10,000	By Realisation A/c (Expenses)	6,000
To Realisation A/c (Fixed asstes and book debts realised)	9,60,000	By Realisation A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	2,02,222
	9,70,000		**9,70,000**

(C) Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(5 Marks)

Solution:

Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	**48,00,000**		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

(D) The following data is provided to you:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2018		31.12.2018	
			₹	Share Capital ₹	Profit & Loss Account ₹	Share Capital ₹	Profit & Loss Account ₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve.

(5 Marks)

Solution:

(1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c .

	Minority% Shares Owned [E]	Minority interest as at the date of acquisition [E] x [A + B] ₹	Minority interest as at the date of consolidation [E] X [C + D] ₹
Case 1 [100-90]	10 %	15,000	17,000
Case 2 [100-85]	15 %	19,500	18,000
Case 3 [100-80]	20%	14,000	14,000
Case 4 [100-100]	NIL	NIL	NIL

A = Share capital on 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 1.1.2018

(2) Calculation of Goodwill or Capital Reserve

	Shareholding % [F]	Cost [G]	Total Equity [A]+ [B]= [H]	Parent's Portion of equity [F] x [H]	Goodwill ₹[G] – [H]	Capital Reserve ₹[H] –[G]
Case 1	90 %	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85 %	1,04,000	1,30,000	1,10,500	—	6,500
Case 3	80 %	56,000	70,000	56,000	Nil	Nil
Case 4	100 %	1,00,000	90,000	90,000	10,000	—

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USE CODE : JUN20

Single Subject @ 3,540

Single Group @ 7,670

Both Groups @ 15,340

USE CODE : NOV20

Single Subject @ 5,900

Single Group @ 11,800

Both Groups @ 21,240

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