National Test Series – 2

Test Paper 5 – Solution

Subject:- Advanced Accounting

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

Question 1.

(A) The Accountant of Virush Limited has sought your opinion, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2020. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Till the previous year the machinery was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(5 Marks)

Solution:-

(i) Change in useful life of machinery from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

(B) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost Incurred upto 31.03.2019	₹ 4 crore
Further cost estimated to complete the contract	₹ 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.
You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

(5 Marks)

Solution:-

	₹ in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 Crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$= (4/10) \times 100 = 40\%$

Revenue and Profit to be recognized for the year ended 31st March, 2019 as per AS 7:

Proportion of total contract value recognized as revenue

= Contract price x percentage of completion

= ₹ 12.60 crore × 40% = ₹ 5.04 crore

Profit for the year ended 31st March, 2019 = ₹ 5.04 crore – ₹ 4 crore = 1.04 crore.

(C) On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.

(5 Marks)

Solution:-

(i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.

(ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. ie. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party transactions, is wrong.

(D) Viral Ltd. sold machinery having WDV of ₹ 40 lakhs to Saral Ltd. for ₹ 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

(i) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.
(ii) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.
(iii) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

(5 Marks)

Solution:-

As per AS 19, where sale and leaseback results in operating lease, then the accounting treatment in different situations is as follows:

Situation 1: Sale price = Fair Value

Profit or loss should be recognized immediately.

Situation 2: Sale Price < Fair Value

Profit should be recognized immediately. The loss should also be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Situation 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Following will be the treatment in the situations given in the question:

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

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

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

Question 2.

(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.

(5 Marks)

Solution:-

In the books of Company
Journal Entries

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) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2020:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid Reserves & Surplus		30,00,000
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,0000
Loan Funds		42,00,000

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

(5 Marks)

Solution:-

Debt Equity Ratio Test

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

Working Notes:

1. Shareholders' funds

Particulars	₹
Paid up capital 30,00,000	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

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

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

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

   (72,80,000 –x)-21,00,000 = y (1)

   Since 51,80,000 – x = y

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

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

   = $\frac{y}{30} \times 10$ = x;

   = 3x = y (2)

   x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

(C) P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018 Their summarized Balance Sheets as on 31.03.2018 were as follows:

(₹ in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.
(ii) Investments are non- current in nature.
(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

(10 Marks)

Solution:-

M/s R Ltd.
Balance Sheet as at 1.4.2018

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' Funds**		
	a	Share capital	1	6,55,980

	b	Reserves and surplus	2	2,77,990
2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade payables short	4	80,000
	b	Term provision	5	22,000
		Total		11,15,970
1		**Non-current assets**		
	a	Property, plant and equipment		
		Tangible	6	5,60,000
	b	Non-current investment	7	1,30,000
2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivable	9	1,44,000
	c	Cash and cash equivalent	10	1,29,970
		Total		11,15,970

Notes to accounts

	₹ in '000
1. share capital	
Equity share capital 55,598 Equity shares of ₹ 10 each, fully paid up (W.N.2)	5,55,980
Preference share capital 9% Preference share capital (Share of ₹ 100 each) (W.N.2)	1,00,000
	6,55,980
2. Reserves and surplus	
Securities premium (W.N.2)	2,77,990
Investment allowance reserve (₹ 10,000+ ₹ 4,000)	14,000
Amalgamation adjustment reserve	(14,000)
	2,77,990
3. Long-term borrowings	
Secured	
10% Debentures (50% of ₹ 1,60,000)	80,000
4. Trade Payables (₹50,000+ ₹ 30,000)	80,000
5. Short term provisions	
Provision for tax (₹ 14,000+ ₹ 8,000)	22,000
6. Tangible assets	
Building (₹ 1,32,000+₹ 1,05,000)	2,37,000
Plant and machinery (₹ 1,76,000+ ₹ 1,47,000)	3,23,000
	5,60,000
7. Non – current Investments (₹ 80,000+ ₹ 50,000)	1,30,000
8. Inventory	
Stock (₹ 72,000+ ₹ 80,000)	1,52,000

9. Trade receivables	
Trade receivables (90% of (₹ 90,000+ ₹ 70,000)	1,44,000
10. Cash and cash equivalents	
Cash and Bank (₹ 80,000+ ₹ 50,000 – ₹ 30)	1,29,970

Working Notes:

1. Calculation of value of equity shares issued to transferor companies

		P Ltd.		Q Ltd.
		(₹)		**(₹)**
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less : Liabilities				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference share capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	P Ltd.	Q Ltd.	Total
Equity shares issued @ ₹ 15 per share (including ₹ 5 premium)			
₹ 3,97,000/15	26,466 shares		
₹ 3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹ 10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
50% of Debentures are converted into equity shares @ ₹ 15 per share			
1,00,000/2 = 50,000/15	3,332 shares2		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	₹33,320	₹ 20,000	₹ 53,320
Security premium@ ₹ 5	₹ 16,660	₹10,000	₹26,660

	₹49,980	₹30,000	₹ 79,980
9% Preference share capital issued	₹60,000	₹40,000	₹1,00,000

Question 3.

(A) The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(₹ in '000)

	Amount
Liabilities	
Equity shares of 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Fixed Assets	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.
(ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
(iii) The balance of Profit and Loss Account to be written off.
(iv) All the existing equity shares are reduced to ₹ 4 each.
(v) All preference shares are reduced to ₹ 60 each.
(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.
(vii) The balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.
(viii) Fixed Assets are written down to 80%.
(ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

(10 Marks)

Solution:-

Journal Entries in the books of SK Ltd.

		₹ '000	₹ '000
(i)	Equity share capital (₹ 10) A/c Dr.	35,000	
	To Equity share capital (₹ 4) A/c		14,000
	To Capital Reeducation A/c		21,000
	(Being conversion of equity share capital of ₹ 10 each into ₹ 4 each as per reconstruction scheme)		
(ii)	8% Cumulative Preference Share capital (₹ 100) A/c Dr.	17,500	
	To 8% Cumulative Preference Share Capital (₹ 60) A/c		10,500
	To Capital Reduction A/c		7,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	6% Debentures (₹ 100) A/c Dr.	14,000	
	To 9% Debentures (₹ 80) A/c		11,200
	To Capital Reduction A/c		2,800
	(Being 9% debentures of ₹ 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	7,000	
	To Equity Share Capital (₹ 4) A/c		3,500
	To Capital Reduction A/c		3,500
	(Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹ 4 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	350	
	Capital Reduction A/c Dr.	175	
	To Liability for Taxation A/c		525
	(Being conversion of the provision for taxation into a liability for taxation for settlement of the amount due)		
(iv)	Liability for Taxation A/c Dr.	525	
	To Current Assets (Bank A/c)		525
	(Being the payment of tax liability)		
(vii)	Capital Reduction A/c Dr.	34,125	
	To P & L A/c		2,100
	To Fixed Assets A/c		8,750
	To Current Assets A/c		18,725
	To Investments A/c		175
	To Capital Reserve A/c (Bal. fig.)		4,375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

Working Note:

Capital Reduction Account

To	Liability for taxation A/c	175	By	Equity share capital	21,000
To	P & L A/c	2,100	By	8% Cumulative preferences	7,000
To	Fixed Assets	8,750		Share capital	
To	Current assets	18,725	By	6% Debentures	2,800
To	Investment	175	By	Sundry creditors	3,500
To	Capital Reserve (Bal.fig.)	4,375			
		34,300			**34,300**

(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:		
	Fixed assets- 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

	₹		₹
Surplus received from		Cost of Liquidation (legal exp.)	17,500
Receiver	16,50,000	Remuneration to Liquidator(12,50,000 x 2%)	25,000
Assets Realized	12,50,000		
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	10,00,000
		Arrears of Preference Dividends	2,40,000
		Equity shareholders Return of money to contributors to holders 1,00,000 shares at ₹ 4.75	4,75,000
		50,000 shares at ₹ 2.75	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) Astha Bank has the following Capital Funds and Assets as at 31st March, 2018:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve (out of which ₹25 crores were due to revaluation	130.00
of assets and balance due to sale of assets)	
<u>Assets:</u>	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by government	22.50
(ii) Guaranteed by DICGC/ECGC	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00
Off- Balance Sheet items:	

(i) Acceptances, endorsements and letters of credit	1,100.00
(ii) Guarantees and other obligations	6,200.00

You are required to:

(i) Segregate the capital funds into Tier I and Tier II capitals.

(ii) Find out the risk-adjusted assets and risk weighted assets ratio.

(10 Marks)

Solution:-

(i) Capital Funds –

Tier I:	₹ in crore
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profit & Loss (Dr. bal.)	(30)
Total	1,145
Capital Funds - Tier II :	
Capital Reserve (arising out of revaluation of assets)	25
Less: Discount to the extent of 55%	(13.75)
Total	11.25

(ii) Risk Adjusted Assets

Funded Risk Assets	**₹ in Crore**	**Percentage Weight**	**Amount ₹ in Crore**
Cash Balance with RBI	35.50	0	-
Balance with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other investments	70	100	70
Loans and advances:			
(i) Guaranteed by government	22.50	0	-
(ii) Guaranteed by DICGC/ECGC	110	50	55
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased assets	40	100	40
			9,636

Off-Balance Sheet Item	**₹ in Crore**	**Credit Conversation Factor**	**₹ In crore**
(i) Acceptance, Endorsements and letters of credit	1,100	100	1,100
(ii) Guarantees and other obligations	6,200	100	6,200
			7,300

Risk Weighted Assets Ratio:

$= (1,145 + 11.25)/(9,639 + 7,300)$

$= (1,156.25/16,936) \times 100 = 6.83\%$ (rounded off)

(B) While closing its books of accounts on 31st March 2018, a Non-Banking Finance Company has its advances classified as follows:

	₹ (in lakhs)
Standard assets	18,400
Sub-standard assets	1,250
Secured Portion of doubtful debts:	
Upto one year	300
One year to three years	90
More than three years	30
Unsecured portions of doubtful debts	92
Loss assets	47

Calculate the amount of provision which must be made against the Advances as per -

(i) The Non-banking Financial Company - Non-systematically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and

(ii) Non-banking Financial Company - Systematically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016.

(10 Marks)

Solution: -

Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	**Percentage of provision**	**Provision ₹ in lakhs**
Standard assets	18,400	0.25	46.00
Sub-standard assets	1,250	10	125.00
Secured portions of doubtful debts-			
- upto one year	300	20	60.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	92	100	92.00
Loss assets	47	100	47.00
			412.00

Calculation of provision required on advances as on 31st March, 2018 as per the Non- Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	18,400	0.40*	73.60
Sub-standard assets	1,250	10	125.00
Secured portions of doubtful debts-			
- upto one year	300	20	60.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	92	100	92.00
Loss assets	47	100	47.00
			439.60

*Note: For the year ending on 31st March, 2018, the provision rate for standard assets is 0.40%.

Question 5.

(A) On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. ₹ in lakhs	S Ltd. ₹ in lakhs
Share Capital:		
Authorized	15,000	6,000
Issued and Subscribed:		
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	-
	21,387	9,208
Assets	**H Ltd. ₹ in lakhs**	**S Ltd. ₹ in lakhs**
Land and Buildings	2,718	-
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-
Stock	3,949	1,956

Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	-
	21,387	9,208

The following information is also provided to you:

a) H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
b) On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.
c) On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.
d) On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
e) On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.

(15 Marks)

Solution:-

Consolidated Balance Sheet of H Ltd.
and its subsidiary S Ltd. as on 31st March, 2017

Particulars	Note No.	(₹ in Lacs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,000
(b) Reserves and Surplus	2	7,159
(2) Minority Interest [W.N.6]		3,120
(3) Current Liabilities		
(a) Trade payables	3	2,315
(b) Short term provisions	4	1,249
(c) Other current liabilities	5	1,687
Total		27,530
II. Assets		
(1) Non-current assets		
Fixed assets		
Tangible assets	6	14,954
(2) Current assets		
(a) Inventories	7	5,885

(b) Trade receivables	8	3,963
(c) Cash and cash equivalents	10	1,694
(d) Short term loans and advances	11	520
(e) Other current assets	9	514
Total		**27,530**

Notes to Accounts

				(₹ in lacs)	(₹ in lacs)
1.	Share Capital Authorized				15,000
	Issued and Subscribed:				
	Equity shares of ₹ 10 each, fully paid up				12,000
2.	Reserves and surplus				
	Capital Reserve (Note 5)			1,320	
	General Reserve (₹ 2,784 + 108)			2,892	
	Profit and Loss Account:				
	H Ltd.		₹ 2,715		
	Less: Dividend wrongly credited	₹ 360			
	Unrealized Profit	₹ 20	(₹ 380)		
			₹ 2,335		
	Add: Share in S Ltd.'s Revenue profits		₹ 612	2,947	7,159
3.	**Trade payables**				
	H Ltd.			1,461	
	S Ltd.			854	2,315
4.	Short term provisions				
	Provisions for taxation				
	H Ltd.			855	
	S Ltd.			394	1,249
5.	Other current liabilities				
	Bills Payable				
	H Ltd.			372	
	S Ltd.			160	

		532	
	Less: Mutual owing Dividend payable	(45)	487
	H Ltd.		1,200
			1,687
6.	Tangible Assets		
	Land and buildings		
	H Ltd.	2,718	
	Plant and machinery		
	H Ltd. 4,905		
	S Ltd. 4,900	9,805	
	Furniture and fittings		
	H Ltd. 1,845		
	S Ltd. 586	2,431	14,954
7.	Inventories		
	Stock		
	H Ltd.	3,949	
	S Ltd.	1,956	
		5,905	
	Less: Unrealized profit	(20)	5,885
8.	Trade receivables		
	H Ltd. 2,600		
	S Ltd. 1,363		3,963
9.	Other current assets		
	Bills Receivables		
	H Ltd. 360		
	S Ltd. 199		
	559		
	Less: Mutual Owing (45)		514
10.	Cash and cash equivalents		
	Cash and bank Balance		
	H Ltd.	1,490	
	S Ltd.	204	1,694

11.	Short term loans and advances		
	sundry Advances		
	H Ltd.		520

Working Notes:

Shareholding pattern of S Ltd.

Shares as on 31st March, 2017 (Includes bonus shares issued on 1st January, 2017)	480 lakh shares (4,800 lakhs/₹10)
H Ltd.'s holding as on 1st April, 2016	180 lakhs
Add: Bonus received on 1st January, 2017	108 lakhs (180 / 5 × 3)
Total H Ltd.'s holding as on 31st March, 2017	288 lakhs i.e. 60% [288/480×100]
Minority Shareholding	40%

1. S Ltd.'s General Reserve Account

	₹ in lakhs		**₹ in lakhs**
To Bonus to Equity Shareholders	1,800	By Balance b/d	3,000
To Balance c/d	1,380	By Profit and Loss A/c (Balancing figure)	180
	3,180		**3,180**

2. S Ltd.'s Profit and Loss Account

	₹ in lakhs		**₹ in lakhs**
To General Reserve [WN 1]	180	By Balance b/d	1,200
To Dividend paid (20% on ₹3,000 lakhs)	600	By Net Profit for the year* (Balancing figure)	1,200
To Balance c/d	1,620		
	2,400		**2,400**

*Out of ₹ 1,200 lakhs profit for the year, ₹ 180 lakhs has been transferred to reserves.

3. Distribution of Revenue profits

	₹ in lakhs
Revenue profits (W. N. 2)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve ₹ 108 + Profit and Loss Account ₹ 612)	
Share of Minority Shareholders (40%)	480

Note: The question can also be solved by taking ₹ 1,080 lakhs as post-acquisition Profit and Loss balance and ₹ 180 lakhs as post-acquisition General Reserve balance. The final answer will be same.

4. Calculation of Capital Profits

	₹ in lakhs
General Reserve on the date of acquisition less bonus shares	1,200
(₹ 3,000 – ₹ 1,800)	
Profit and loss account on the date of acquisition less	600
dividend paid	
(₹ 1,200 – ₹ 600)	1,800

H Ltd.'s share = 60% of ₹ 1,800 lakhs = ₹ 1,080 lakhs

Minority interest = ₹ 1,800 – ₹ 1,080 = ₹ 720 lakhs

5. Calculation of capital reserve

	₹ in lakhs
Paid up value of shares held (60% of ₹ 4,800)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (₹ 3,000 – ₹ 360)	(2,640)
Capital reserve	1,320

6. Calculation of Minority Interest

	₹ in lakhs
40% of share capital (40% of ₹ 4,800)	1,920
Add: Share in revenue profits [WN 3]	480
Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

₹ 100 lakhs x 25/125 = ₹ 20 Lakhs

(B) Rohit Ltd. has provided the following information

Particulars	**₹**
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortized preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

(5 Marks)

Solution:-

Table showing calculation of deferred tax asset / liability

Particulars	**Amount**	**Timing difference**	**Deferred tax**	**Amount @ 50%**
	₹			**₹**
Excess depreciation as per tax records (₹ 5,50,000 – ₹2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortized preliminary expenses as per tax records	40,000	Timing	Deferred tax asset	(20,000)
Net deferred tax liability				1,30,000

Net deferred tax liability amounting ₹ 1,30,000 should be recognized as transition adjustment.

Question 6.

(A) Ram, Wazir and Adil give you the following Balance Sheet as on 31st March, 2019:

Liabilities		15,000	Plant and Machinery at cost		30,000
Ram's Loan			Fixtures and Fittings		2,000
Capital Accounts:			Stock		10,400
Ram	30,000		Debtors	18,400	
Wazir	10,000		Less: Provision	(400)	18,000
Adil	2,000	42,000	Joint Life Policy		15,000
Sundry Creditors		17,800	Patents and Trademarks		10,000
Loan on Hypothecation of Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			93,400

The partners shared profits and losses in the ratio of Ram 4/9, Wazir 2/9 and Adil 1/3. Firm was dissolved on 31st March, 2019 and you are given the following information:

(a) Adil had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.

The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Adil's loan and ₹ 300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.

(d)

The remaining assets realized the following amount:	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents	at 50% of their book value

e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹ 2,300.

You are required to prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form. Also provide necessary working notes in your answer.

(10 Marks)

Solution:-

Realization Account

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

Bank Account

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

Partners' capital Accounts

Particulars	**Ram**	**Wazir**	**Adil**	**Particulars**	**Ram**	**Wazir**	**Adil**
	₹	**₹**	**₹**		**₹**	**₹**	**₹**
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (Bal.fig)			5,400
To Bank (Bal. Fig.)	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1. Ram's Loan Account

Particulars	**₹**	**Particulars**	**₹**
To Bank A/c	15,000	By Balance b/d	15,000
	15,000		15,000

2. Sundry Creditors Account

Particulars	**₹**	**Particulars**	**₹**
To patents and Trademarks A/c	4,500	By Balance b/d	17,800
To realization A/c	500		
To Bank A/c	12,800		
	17,800		17,800

3. Loan on Hypothecation of Stock Account

Particulars	**₹**	**Particulars**	**₹**
To Realization A/c	3,000	By Balance b/d	6,200
To Bank A/c	3,200		
	6,200		6,200

4. Joint Life Policy Account

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

To Realization A/c	12,900	By Bank A/c (10,200 + 5,300)	15,500
	27,900		27,900

5. Patents and Trademarks Account

Particulars	₹	Particulars	₹
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	4,000*
	10,000		10,000

(B) Mohit, Neel, and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm on 31st March, 2019 was the following:

Particulars	₹	₹
Machinery at Cost	2,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
Mohit		1,36,000
Neel		90,000
Om		46,000
Drawing A/cs:		
Mohit	50,000	
Neel	46,000	
Om	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	-
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an Authorized Share Capital of 2,00,000 shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are provided the following information:

1. Machinery is to be transferred at ₹ 1,40,000.

2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.

3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit -sharing ratio.

4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(b) Capital Accounts showing all adjustments required to dissolve the Partnership.

(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

(10 Marks)

Solution:-

(a) Number of Shares to be issued to Partners

Particulars	**₹**
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 +Trade Receivable ₹1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued :	Mohit	Neel	Om	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each	30,000	18,000	12,000	60,000
(3,32,000 -2,72,000) (issued in profit sharing ratio)				
	1,66,000	1,08,000	58,000	3,32,000

b) Partners' Capital Accounts

Particulars	**Mohit**	**Neel**	**Om**	**Particulars**	**Mohit**	**Neel**	**Om**
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	12,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	6,800	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank Additional	54,300	17,420		By Machinery A/c	10,000	6,000	4,000
Drawings (W.N.2)							
Total	2,70,300	1,71,420	98,880		2,70,000	1,71,420	98,880

*Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000 - ₹ 80,000) = ₹ 20,000 in 5:3:2 ratio

(c) Balance sheet of MNO Ltd. as on 31st March, 2019 (after Takeover of Firm)

	Particulars	Note No.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400
II	Assets		
	(1) Non-Current Assets		
	Property, plant & equipment		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,000

Notes to Accounts

Particulars	₹
1. Shares capital	
Authorized shares capital	20,00,000
Issued, Subscribed & paid up	
6,000 Equity Shares of ₹ 10 each	60,000
27,200 10% Preference Shares capital of ₹ 10 each	2,72,000
(All above shares issued for consideration other than cash, in take over of partnership firm)	3,32,000

Working Note:

1. Profit & Loss Appropriation Account for the year ended 31st March, 2019

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	2,48,600
Mohit [₹ 1,36,000 x 10%]	13,600			
Neel [₹ 90,000 x 10%]	9,000			
Om [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
Mohit	1,10,700			
Neel	66,420			
Om	44,280	2,21,400		
Total		2,48,600		2,48,600

2. Statement showing Additional Drawings in Cash

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	78,600
		2,08,600
Less:	Interest on Capital	(27,200)
	Amount available for Additional Drawings	1,81,400

(b) Ascertainment of Additional Drawings

Particulars	Mohit	Neel	Om
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	13,600	9,000	4,600
	1,04,300	63,420	40,880
Less: Already drawn	(50,000)	(46,000)	(34,000)
Additional Drawings	54,300	17,420	6,880