PAPER – 5 : ADVANCED ACCOUNTING

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

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

Working notes should form part of the respective answers.

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

Question 1

Answer the following questions:

(a) Fast Ltd. acquired a patent at a cost of ₹ 40,00,000 for a period of five years and its product life-cycle is also five years. The company capitalized the cost and started amortising the asset at ₹ 5,00,000 per annum. After two years, it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years are expected to be ₹ 18,00,000, ₹ 23,00,000, ₹ 22,00,000, ₹ 20,00,000 and ₹ 17,00,000. Find out the amortization cost of the patent for each of the years.

(b) 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.

(c) Ram Ltd. purchased machinery for ₹ 80 lakhs. (useful life 4 years and residual value ₹ 8 lakhs). Government grant received is ₹ 32 lakhs. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if

(i) the grant is credited to Fixed Assets A/c.

(ii) the grant is credited to Deferred Grant A/c.

(d) The Board of Directors of M/s. New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements. (4 x 5 Marks = 20 Marks)

Answer

(a) Amortization by Fast Limited for the first two years (₹ 5,00,000 X 2) = ₹ 10,00,000.

Remaining carrying cost after two years = ₹ 40,00,000 - ₹ 10,00,000

= ₹ 30,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost will be amortized during next 5 years in the ratio of net cash arising from the products of Fast Limited.

The amortization may be found as follows:

Year	*Net cash flows (₹)*	*Amortization Ratio*	*Amortization Amount (₹)*
I	-	0.125	5,00,000
II	-	0.125	5,00,000
III	18,00,000	0.180	5,40,000
IV	23,00,000	0.230	6,90,000
V	22,00,000	0.220	6,60,000
VI	20,00,000	0.200	6,00,000
VII	17,00,000	0.170	5,10,000
Total	1,00,00,000	1.000	40,00,000

Note*:*

1. It has been assumed that the company has amortized the patent at ₹ 5,00,000 per annum (on a systematic manner) for the first 2 years.
2. It has been considered that the patent is renewable and fast Ltd. got it renewed after expiry of five years.

(b) 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	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	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 ₹ 50,000 x (0.5523)	₹ 27,615
	₹ 10,07,020

(c) In the books of Ram Ltd.

(1) If the grant is credited to Fixed Assets Account:

1. Journal Entry (at the time of refund of grant)

		In lakhs ₹	In lakhs ₹
I	Fixed Assets Dr. To Bank A/c (Being grant refunded)	32	 32

2. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs – ₹ 32 lakhs

= ₹ 48 lakhs

Depreciation for each year = (₹ 48 lakhs – ₹8 lakhs)/4 years

= ₹ 10 lakhs per year for first two years.

Value of the assets before refund of grant =₹ 48 lakhs - ₹ 20 lakhs

= ₹ 28 lakhs

* *The difference between this figure and guaranteed residual value (₹ 50,000) is due to rounding off.*

3. Value of Fixed Assets after refund of grant

Value of Fixed Assets before refund of grant	₹ 28 lakhs
Add Refund of grant	₹ 32 lakhs
	₹ 60 lakhs

4. Amount of depreciation for remaining two years

Value of the fixed assets after refund of grant –residual value of the assets / No. of years

= ₹ 60 lakhs - ₹ 8 lakhs / 2

= ₹ 26 lakhs per annum will be charged for next two years.

(2) If the grant is credited to Deferred Grant Account:

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged.

Accordingly, in the first two years (₹ 32 lakhs /4 years) = ₹ 8 lakhs x 2 years = ₹ 16 lakhs will be credited to Profit and Loss Account and ₹ 16 lakhs will be the balance of Deferred Grant Account after two years.

Therefore, on refund of grant, following entry will be passed:

			₹	₹
I	Deferred Grant A/c	Dr.	16 lakhs	
	Profit & Loss A/c	Dr.	16 lakhs	
	To Bank A/c			32 lakhs
	(Being Government grant refunded)			

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year = (₹ 80 lakhs – ₹8 lakhs)/4 years = ₹ 18 lakhs per year

Book value of fixed assets after two years = ₹ 80 lakhs – (₹ 18 lakhs x 2 years) = ₹ 44 lakhs

2. Value of Fixed Assets after refund of grant

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at ₹ 44 lakhs.

3. Amount of depreciation for remaining two years

Depreciation will continue to be charged at ₹ 18 lakhs per annum for the remaining two years.

(d) As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

Question 2

Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2015 was:

Liabilities		*₹*	*Assets*		*₹*
Sundry Creditors		*1,44,000*	*Stock*		*1,44,000*
Bank Overdraft		*84,000*	*Machinery*		*3,60,000*
Capital A/c:			*Debtors*		*1,68,000*
			Joint Life Policy		*21,600*
Ali	*3,36,000*		*Leasehold Premises*		*81,600*
Beta	*3,12,000*	*6,48,000*	*Profit & Loss A/c*		*62,400*
			Drawing A/c:		
			Ali	*24,000*	
			Beta	*14,400*	*38,400*
		8,76,000			*8,76,000*

The business was carried on till 30-06-2016. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-06-2016, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹ 24,000 and bank overdraft by ₹ 36,000.

On 30-06-2016, stock was valued at ₹ 1,80,000 and debtors at ₹ 1,44,000; the Joint Life Policy had been surrendered for ₹ 21,600 before 30-06-2016 and other items remained the same as at 31-12-2015.

On 30-06-2016, the firm sold the business to a limited company. The value of goodwill was fixed at ₹ 2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-06-2016. The company paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:

(a) Balance Sheet of the firm as at 30-06-2016;

(b) Realisation Account; and

(c) Partners' Capital Accounts showing the final settlement between them. *(16 Marks)*

Answer

(a) Balance Sheet of the Firm as at 30.6.2016

Liabilities	**₹**	**₹**	***Assets***	**₹**	**₹**
Capital Accounts:			Machinery	3,60,000	
Ali balance as on 1.1.2016	2,80,800		*Less*: Depreciation @ 10% p.a. for 6 months	(18,000)	3,42,000
Add: Profit for 6 months	28,320		Leasehold premises	81,600	
	3,09,120		*Less*: Written-off @ 5%		
Less: Drawings for 6 months	(14,160)	2,94,960	for 6 months	(4,080)	77,520
Beta balance as on 1.1.2016	2,66,400		Stock		1,80,000
Add: Profit for 6 months	28,320		Sundry Debtors		1,44,000
	2,94,720				
Less: Drawings for 6 months	(14,160)	2,80,560			
Sundry Creditors (1,44,000 – 24,000)		1,20,000			
Bank overdraft (84,000 – 36,000)		48,000			
		7,43,520			7,43,520

(b) Realization Account

	Particulars	**₹**		**Particulars**	**₹**
To	Machinery A/c	3,42,000	By	Sundry Creditors A/c	1,20,000
To	Leasehold Premises A/c	77,520	By	Bank Overdraft A/c	48,000
To	Stock A/c	1,80,000	By	Purchasing Company A/c (W.N.1)	8,15,520

To Sundry Debtors A/c	1,44,000		
To Ali Capital A/c	1,20,000		
To Beta Capital A/c	1,20,000		
	9,83,520		9,83,520

(c) Partners' Capital Accounts

Date	Particulars	Ali	Beta	Date	Particulars	Ali	Beta
		₹	₹			₹	₹
1.1.16	To Profit & Loss A/c	31,200	31,200	1.1.16	By Balance b/d	3,36,000	3,12,000
	To Drawings A/c	24,000	14,400				
29.6.16	Balance c/d	2,80,800	2,66,400				
		3,36,000	3,12,000			3,36,000	3,12,000
30.6.16	To Drawings A/c	14,160	14,160	30.6.16	By Balance b/d	2,80,800	2,66,400
	To Shares in Purchasing Company A/c	4,14,960	4,00,560	30.6.16	By Profit & Loss Appropriation A/c	28,320	28,320
					By Realization A/c	1,20,000	1,20,000
		4,29,120	4,14,720			4,29,120	4,14,720

Working Notes:

(1) Ascertainment of purchase consideration

	₹	₹
Assets:		
Stock		1,80,000
Sundry Debtors		1,44,000
Machinery less depreciation		3,42,000
Leasehold premises less written off		77,520
		7,43,520
Less: Liabilities:		

Sundry Creditors	1,20,000	
Bank overdraft	48,000	
		(1,68,000)
Closing Net Assets		5,75,520
Add: Goodwill		2,40,000
Purchase Consideration		8,15,520

(2) Ascertainment of profit for the 6 month ended 30th June, 2016

	₹	₹
Closing Net Assets		5,75,520
Less: Opening Combined Capital		
Ali – (3,36,000- 31,200-24,000)	2,80,800	
Beta – (3,12,000-31,200-14,400)	2,66,400	5,47,200
Profit after adjustment of Drawings		28,320
Add: Combined drawings during the 6 month (equal to profit)		28,320
Profit for 6 months		**56,640**

Question 3

(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 + 8 = 16 Marks)

Answer

(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 31	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 31	Equity Share Allotment A/c (28,80,000 x ₹ 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000x ₹ 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 31	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 31	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 31	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

Question 4

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarised balance sheet as at 31-03-2017

Liabilities	*P Ltd. ₹*	*Q Ltd. ₹*	*Assets*	*P Ltd. ₹*	*Q Ltd. ₹*
Equity & liabilities:			*Assets:*		
Shareholders Fund			*Non-current Assets:*		
a. Share Capital	*6,00,000*	*8,40,000*	*Fixed Assets (excluding Goodwill)*	*7,20,000*	*10,80,000*
b. Reserves	*10,20,000*	*6,00,000*	*Current Assets*		
Current Liabilities			*a. Inventories*	*3,60,000*	*6,60,000*
Bank Overdraft	*-*	*5,40,000*	*b. Trade receivables*	*4,80,000*	*7,80,000*
Trade payables	*2,40,000*	*5,40,000*	*c. Cash at Bank*	*3,00,000*	*-*
	18,60,000	*25,20,000*		*18,60,000*	*25,20,000*

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries. *(16 Marks)*

Answer

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	₹
P Ltd.	6,00,000

Q Ltd.		8,40,000
		14,40,000

Share of P Ltd. = ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= ₹ 8,64,000 or 86,400 shares

Securities premium = ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000

Premium per share = ₹ 12,96,000 / ₹ 86,400 = ₹ 15

Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share

Share of Q Ltd. = ₹ 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= ₹ 5,76,000 or 57,600 shares

Securities premium = ₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000

Premium per share = ₹ 8,64,000 / ₹ 57,600 = ₹ 15

Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share

(ii) Journal Entries

In the books of PQ Ltd.

		Dr.	***Cr.***
Particulars		***Amount (₹)***	***Amount (₹)***
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	

To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000
To Securities premium (57,600 x ₹ 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	21,60,000
	b	Reserves and Surplus	2	32,40,000
2		Current liabilities		
	a	Short-term borrowings (Bank overdraft)		5,40,000
	b	Trade payables (2,40,000 + 5,40,000)		7,80,000
		Total		67,20,000
		Assets		
1		Non-current assets		

	a	Fixed assets		
		Tangible assets (7,20,000 + 10,80,000)		18,00,000
		Intangible assets (goodwill)	4	5,40,000
2		Current assets		
	a	Inventories (3,60,000 + 6,60,000)		10,20,000
	b	Trade receivables (4,80,000 +7,80,000)		12,60,000
	c	Cash and cash equivalents	3	21,00,000
		Total		67,20,000

Notes to accounts

	₹
1 Share Capital	
Authorized Share capital	
2,64,000 Equity shares of ₹10 each	26,40,000
Issued, subscribed and paid up share capital	
2,16,000 Equity shares of ₹10 each	21,60,000
(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	
2 Reserves and Surplus	
Securities premium	32,40,000
(@₹15 for 2,16,000 shares)	
3 Cash and cash equivalents	
Cash at Bank	15,60,000
4 Intangible Assets	
Goodwill	5,40,000

Working Notes:

1. Calculation of goodwill

Particulars	**Amount** ₹	**Weight**	**Weighted amount** ₹
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000

weighted Average = [Total weighted amount /Total of weight] [₹ 32,40,000/6] Goodwill			5,40,000

2. Calculation of Net assets

	P Ltd. ₹	Q Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
***Less:* Liabilities**		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	**21,60,000**	**14,40,000**

3. New authorized capital

= ₹ 14,40,000 + ₹ 12,00 000 = ₹ 26,40,000

4. Cash and Cash equivalents

	₹
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X ₹ 25)	18,00,000
	21,00,000*

Question 5

(a) From the following balances extracted from the books of REAL General Insurance Company Ltd. as on 31st March 2017, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance Business for the year ended 31st March, 2017.

** The amount of bank overdraft of Q Ltd. amounting ₹ 5,40,000 has been shown separately in balance sheet. Alternatively, the balance of cash and cash equivalent may be shown as the net amount.*

Particulars	*Fire* ₹	*Marine* ₹
Outstanding Claim as on 1st April, 2016	*28,000*	*7,000*
Claims Paid	*1,00,000*	*80,000*
Reserved for unexpired Risk as on 1st April 2016	*2,00,000*	*1,40,000*
Premium Received	*4,50,000*	*3,30,000*
Agent's Commission	*40,000*	*20,000*
Expenses of management	*60,000*	*45,000*
Re Insurance Premium –Dr.	*25,000*	*15,000*

The following additional points are also to be taken into consideration:

(1) Claims outstanding as on 31st March 2017 were as follows:

(a) Fire Insurance - ₹ 10,000

(b) Marine Insurance - ₹ 15,000

(2) Premium outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance - ₹ 30,000

(b) Marine Insurance - ₹ 20,000

(3) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire & Marine Insurance respectively.

(4) Expenses of management due on 31st March, 2017 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of Marine Insurance.

(b) A commercial bank has the following capital funds and assets. You are required to segregate the capital funds into Tier- I and Tier- II capitals and also find out the risk adjusted assets and capital adequacy ratio.

Capital Funds and Assets	*₹ In crores*
Paid up share capital	*1,500*
Statutory Reserves	*300*
Securities Premium	*300*
Capital Reserve (of which ₹ 80 crores were due to revaluation of assets and balance due to sale)	*180*
Assets:	
Cash balance with R.B.I.	*120*
Claims on Banks	*340*
Other Investments	*4,600*

Loans & Advances:	
Guaranteed by Government of India and State Governments	*800*
Bank Staff Advances- Fully covered by Super-annuation Benefits	*100*
Other loans and advances	*340*
Premises, Furniture & Fixtures, Other Assets	*7,850*
Intangible Assets	*30*
Off Balance Sheet Items:	
Acceptance, Endorsements, Letter of Credits, Guarantees and Other Obligations	*3,100*

(8 + 8 = 16 Marks)

Answer

(a) **Form B – RA (Prescribed by IRDA)**

Real General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2017

Fire and Marine Insurance Business

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	4,27,500	1,40,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		4,27,500	1,40,000
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000
Operating expenses related to Insurance business	4	70,000	50,000
Total (B)		1,92,000	1,58,000
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account

	Fire	*Marine*
	₹	₹
Schedule -1		
Premium earned (net)		
Premium received during the year	4,50,000	3,30,000
Add: Outstanding on 31st March 2017	30,000	20,000
	4,80,000	3,50,000
Less: Reinsurance premiums	(25,000)	(15,000)
	4,55,000	3,35,000
Less: Adjustment for change in provision for unexpired risk	(27,500)	(1,95,000)
	4,27,500	**1,40,000**
Schedule – 2		
Claims incurred (net)		
Claims paid during the year	1,00,000	80,000
Add: Outstanding on 31st March,2017	10,000	15,000
	1,10,000	95,000
Less: Outstanding on 1st April,2016	(28,000)	(7,000)
	82,000	**88,000**
Schedule – 3		
Commission paid	**40,000**	**20,000**
Schedule – 4		
Operating expenses		
Expenses of Management		
Expenses paid during the year	60,000	45,000
Add: Outstanding on 31st March,2017	10,000	5,000
	70,000	**50,000**

Working note for changes in unexpired Risk Reserve

Reserve for unexpired Risk (Fire Insurance @50%)	
Opening Reserve (1)	₹ 2,00,000
Closing Reserve (₹ 4,55,000 X 50/100) (2)	₹ 2,27,500
Additional Transfer to Reserve (2 – 1)	₹ 27,500

Reserve for unexpired Risk (Marine Insurance @100%)	
Opening Reserve (1)	₹1,40,000
Closing Reserve (₹ 3,35,000 X 100/100) (2)	₹3,35,000
Additional Transfer to Reserve (2 – 1)	₹1,95,000

(b)

		₹ in crores	*₹ in crores*
(i)	**Capital funds – Tier I**		
	Equity share capital paid up		1,500
	Statutory reserve		300
	Securities premium		300
	Capital reserve (arising out of sale of assets) (180-80)		100
			2,200
	Reduced by intangible assets		(30)
			2,170
	Capital funds – Tier II		
	Capital reserve (arising out of revaluation of assets)	80	
	Less: Discount to the extent of 55%	(44)	36
	Capital fund		2,206

		₹ in crores	**% of weight**	**₹ in crores**
(ii)	**Risk Adjusted Assets**			
	Funded Risk Assets			
	Cash balance with RBI	120	0	0
	Claims on banks	340	20	68
	Other investments	4,600	100	4,600
	Loans and advances:			
	(i) Guaranteed by the government	800	0	0
	(ii) Bank Staff Advances fully covered by Super-Annuation Benefits	100	20	20
	(iii) Others	340	100	340

	Premises, furniture and fixtures and other assets	7,850	100	7,850
				12,878
		₹ in crores	*Credit conversion factor*	
	Off-Balance Sheet items:			
	Acceptances, endorsements, letters of credit, Guarantees and other obligations	3,100	100	3,100
				15,978

Capital to Risk Weighted Assets Ratio (Capital Adequacy Ratio:

Capital Fund/ (Risk Adjusted Assets +Off-Balance Sheet items) x100

(2,206/15,978) x 100 =13.81%

Question 6

(a) The following balances were extracted from the books of Beta. You are required to prepare Departmental Trading Account and general Profit & Loss Account for the year ended 31st December, 2016:

Particulars	*Deptt. A ₹*	*Deptt. B ₹*
Opening Stock	*3,00,000*	*2,40,000*
Purchases	*39,00,000*	*54,60,000*
Sales	*60,00,000*	*90,00,000*

General expenses incurred for both the Departments were ₹ 7,50,000 and you are also supplied with the following information:

(i) Closing stock of Department A ₹ 6,00,000 including goods from Department B for ₹ 1,20,000 at cost to Department A.

(ii) Closing stock of Department B ₹ 12,00,000 including goods from Department A for ₹ 1,80,000 at cost to Department B.

(iii) Opening stock of Department A and Department B include goods of the value of ₹ 60,000 and ₹ 90,000 taken from Department B and Department A respectively at cost to transferee departments.

(iv) The gross profit is uniform from year to year.

(b) Show Adjustment journal Entry alongwith working notes in the books of head office at the end of April, 2017 for incorporation of inter branch transactions assuming that only head office maintains different branch account in its books:

(A) Delhi Branch:

(i) Received goods from Mumbai ₹ 1,40,000 and ₹ 60,000 from Kolkata.

(ii) Sent goods to Chennai ₹ 1,00,000, Kolkata ₹ 80,000

(iii) Bill receivable received ₹ 80,000 from Chennai

(iv) Acceptances sent to Mumbai ₹ 1,00,000, Kolkata ₹ 40,000

(B) Mumbai Branch (Apart from the above):

(i) Received goods from Kolkata ₹ 60,000, Delhi ₹ 80,000

(ii) Cash sent to Delhi ₹ 60,000, Kolkata ₹ 28,000

(C) Chennai Branch (Apart from the above):

(i) Received goods from Kolkata ₹ 1,20,000

(ii) Acceptances and cash sent to Kolkata ₹ 80,000, Kolkata ₹ 40,000 respectively.

(D) Kolkata Branch (Apart from the above):

(i) Sent goods to Chennai ₹ 1,40,000

(ii) Paid cash to Chennai ₹ 60,000

(iii) Acceptance sent to Chennai ₹ 60,000. *(8 + 8 = 16 Marks)*

Answer

(a) Departmental Trading Account for the year ended on 31st December, 2016

Particulars	A	B	Particulars	A	B
	₹	₹		₹	₹
To Opening Stock	3,00,000	2,40,000	By Sales	60,00,000	90,00,000
To Purchases	39,00,000	54,60,000	By Closing Stock	6,00,000	12,00,000
To Gross Profit	24,00,000	45,00,000			
	66,00,000	1,02,00,000		66,00,000	1,02,00,000

General profit and loss account of Beta for the year ended on 31st December, 2016

Particulars	Amount	Particulars	Amount
	₹		₹
To General expenses*	7,50,000	By Stock reserve (opening stock)	

* *General expenses have not been allocated to individual department and are charged to General Profit and Loss Account.*

To Stock reserve (Closing Stock)		Dept. A	30,000
Dept. A	60,000	Dept. B	36,000
Dept. B	72,000	By Gross Profit	
To Net Profit	60,84,000	Dept. A	24,00,000
		Dept. B	45,00,000
	69,66,000		69,66,000

Working Notes:

		Dept. A	Dept. B
1.	Percentage of Profit	24,00,000/60,00,000 x 100 40%	45,00,000/90,00,000 x 100 50%
2.	Opening Stock reserve	60,000 x 50% = 30,000	90,000 X 40% = 36,000
3.	Closing Stock reserve	1,20,000 x 50%=60,000	1,80,000 x 40% = 72,000

(b) Journal entry in the books of Head Office

Date	*Particulars*	*Dr.*	*Cr.*
		₹	₹
30th April, 2017	Mumbai Branch Account Dr.	12,000	
	Chennai Branch Account Dr.	2,80,000	
	To Delhi Branch Account		60,000
	To Kolkata Branch Account		2,32,000
	(Being adjustment entry passed by head office in respect of inter-branch transactions for the month of April, 2017)		

Working Note:

Inter – Branch transactions

		Delhi	*Mumbai*	*Chennai*	*Kolkata*
		₹	₹	₹	₹
A.	**Delhi Branch**				
(1)	Received goods	2,00,000 (Dr.)	1,40,000 (Cr.)		60,000 (Cr.)
(2)	Sent goods	1,80,000 (Cr.)		1,00,000 (Dr.)	80,000 (Dr.)

(3)	Received Bills receivable	80,000 (Dr.)		80,000 (Cr.)	
(4)	Sent acceptance	1,40,000 (Cr.)	1,00,000 (Dr.)		40,000 (Dr.)
B.	**Mumbai Branch**				
(5)	Received goods	80,000 (Cr.)	1,40,000 (Dr.)		60,000 (Cr.)
(6)	Sent cash	60,000 (Dr.)	88,000 (Cr.)		28,000 (Dr.)
C.	**Chennai Branch**				
(7)	Received goods			1,20,000 (Dr.)	1,20,000 (Cr.)
(8)	Sent cash and acceptances			1,20,000 (Cr.)	1,20,000 (Dr.)
D.	**Kolkata Branch**				
(9)	Sent goods			1,40,000 (Dr.)	1,40,000 (Cr.)
(10)	Sent cash			60,000 (Dr.)	60,000 (Cr.)
(11)	Sent acceptances			60,000 (Dr.)	60,000 (Cr.)
		60,000 (Cr.)	12,000 (Dr.)	2,80,000 (Dr.)	2,32,000 (Cr.)

Question 7

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

(a) Write short note on main elements of Financial Statements.

(b) A company had issued 30,000, 14% convertible debentures of ₹ 100 each on 1st April, 2014. The debentures are due for redemption on 1st July, 2016. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹ 10) at a price of ₹ 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

(c) State the circumstances when LLP can be wound up by the Tribunal.

(d) ABC Ltd. has entered into a binding agreement with XYZ Ltd. to buy a custom-made machine amounting to ₹ 4,00,000. As on 31st March, 2016 before delivery of the machine, ABC Ltd. had to change its method of production. The new method will not require the machine ordered and so it shall be scrapped after delivery. The expected scrap value is 'NIL'.

Show the treatment of machine in the books of ABC Ltd.

(e) M/s. Cloud Limited has gone into liquidation on 25th June, 2016. Certain creditors could not receive payment out of realization of assets and contributions from 'A list' contributories. The following are the details of certain transfers which took place during the year ended 31st March, 2016:

Shareholders	*No. of shares transferred*	*Date of ceasing to be a member*	*Creditors remaining unpaid and outstanding on the date of transfer (₹)*
K	*4,000*	*10-05-2015*	*9,000*
L	*3,000*	*22-07-2015*	*12,000*
M	*2,400*	*15-09-2015*	*13,500*
N	*1,600*	*14-12-2015*	*14,000*
O	*1,000*	*09-03-2016*	*14,200*

All the shares are of ₹ 10 each and ₹ 8 per share paid up. Show the amount to be realized from the persons listed above. Ignore remuneration of liquidator and other expenses.

(4 x 4 = 16 Marks)

Answer

(a) Elements of Financial Statements

The framework classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

(b) Calculation of number of equity shares to be allotted

	Number of debentures
Total number of debentures	30,000
Less: Debenture holders who have not opted for conversion	(2,500)
Debenture holders who opted for conversion	27,500
Option for conversion	20%
Number of debentures to be converted (20% of 27,500)	5,500

Redemption value of 5,500 debentures at a premium of 5% [5,500 x (100+5)] ₹ 5,77,500

Equity shares of ₹10 each issued on conversion

[₹5,77,500/ ₹15] 38,500 shares

(c) Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(d) A liability is recognized when outflow of economic resources in settlement of a present obligation can be anticipated and the value of outflow can be reliably measured. In the given case, ABC Ltd. should recognize a liability of ₹4, 00,000 payable to XYZ Ltd.

When flow of economic benefit to the enterprise beyond the current accounting period is considered improbable, the expenditure incurred is recognized as an expense rather than as an asset. In the present case, flow of future economic benefit from the machine to the enterprise is improbable. The entire amount of purchase price of the machine should be recognized as an expense.

Hence ABC Ltd. should charge the amount of ₹ 4,00,000 (being loss due to change in production method) to Profit and loss statement and record the corresponding liability (amount payable to XYZ Ltd.) for the same amount in the books for the year ended 31st March, 2016.

(e) Statement of Liabilities of B List Contributories (amount to be realized)

Shareholder	*No. of shares transferred*	*Maximum liability up to ₹ 2 per share*	*Division of liability as on*				*Total*
			22.07.2015	*15.09.2015*	*14.12.2015*	*09.03.2016*	
		₹	₹	₹	₹	₹	₹
L	3,000	6,000	4,500	-	-	-	4,500
M	2,400	4,800	3,600	720	-	-	4,320
N	1,600	3,200	2,400	480	308	-	3,188
O	1,000	2,000	1,500	300	192	8	2,000
	8,000	16,000	12,000	1,500	500	8	14,008

- K transferred shares before one year preceding the date of winding up, therefore, he cannot be held liable for any liability on liquidation.
- Liability of O has been restricted to the maximum allowable limit of ₹ 2,000. Therefore, amount payable by O on 09.03.2016 is ₹ 8 only.

Notes:

1. L will not be responsible for further debts incurred after 22-07-2015 (from the date when he ceases to be a member). Similarly, M&N will not be liable for the debts incurred after the date of their transfer of shares.
2. Ratio of discharge of liability will be in the ratio of no. of shares held by B List Contributories which is as follows:

Calculation of Ratio for discharge of Liabilities

Date	Cumulative liability ₹	Increase in liabilities ₹	Ratio of no. of shares held by L, M, N,O
22.07.2015	12,000	-	30:24:16:10
15.09.2015	13,500	1500	24:16:10
14.12.2015	14,000	500	16:10
09.03.2016	14,200	200	Only O