

## PAPER – 5: ADVANCED ACCOUNTING

Question No.1 is compulsory.

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

Working notes should form part of the respective answers.

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

### Question 1

- (a) The Accountant of Shiva Limited had sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policies or change in Accounting Estimates for the year ended 31<sup>st</sup> March, 2021. Please advise him in the following situations in accordance with the provisions of AS 5:
- (i) Provision for doubtful debts was created @3% till 31<sup>st</sup> March, 2020. From the Financial year 2020-2021, the rate of provision has been changed to 4%.
  - (ii) During the year ended 31<sup>st</sup> March,2021, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
  - (iii) Till 31<sup>st</sup> March, 2020 the furniture was depreciated on straight line basis over a period of 5 years. From the Financial year 2020-2021, the useful life of furniture has been changed to 3 years.
  - (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.
  - (v) During the year ended 31<sup>st</sup> March 2021, there was change in cost formula in measuring the cost of inventories.
- (b) The following information is furnished in respect of Mohit Limited for the year ending 31<sup>st</sup> March,2022.
- (i) Depreciation as per accounting records                      ₹ 56,000  
Depreciation for income tax records                              ₹ 38,000  
The above depreciation does not include depreciation on new addition.
  - (ii) A new machinery purchased on 1<sup>st</sup> April, 2021 costing ₹ 24,000 on which 100% depreciation is allowed in the 1<sup>st</sup> Year for income tax purpose, whereas straight line method of depreciation is considered appropriate for accounting purpose with a life estimation of 4 years.
  - (ii) The company has made a profit of ₹ 1,28,000 before depreciation and taxes.

(iv) Donation to private trust during the year is ₹ 15,000 (not allowed under Income tax laws.)

(v) Corporate tax is 40%.

Prepare relevant extract of statement of Profit & Loss for the year ending 31<sup>st</sup> March, 2022. Also show the effect of the above items on Deferred Tax Liability/Assets as per AS 22.

(c) The following information is provided to you:

Net profit for the year 2022:	₹ 72,00,000
Weighted average number of equity shares outstanding during the year 2022:	30,00,000 shares
Average Fair value of one equity share during the year 2022:	₹ 25.00
Weighted average number of shares under option during the year 2022:	6,00,000 shares
Exercise price for shares under option during the year 2022:	₹ 20.00

You are required to compute Basic and Diluted Earnings Per Share as per AS 20.

(d) MN Limited operates its business into various segments. Its financial year ended on 31<sup>st</sup> March, 2022 and financial statements were approved by their approving authority on 15<sup>th</sup> June, 2022. The following material events took place:

- (i) On 7<sup>th</sup> April, 2022, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of ₹ 15 crores would be fully covered by the insurance company.
- (ii) A claim for damage amounting to ₹ 12 crores for breach of patent had been received by the entity prior to the year end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.
- (iii) A major property was sold (it was included in the balance sheet at ₹ 37,50,000) for which contracts had been exchanged on 15<sup>th</sup> March, 2022. The sale was completed on 15<sup>th</sup> May, 2022 at a price of ₹ 39,75,000.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of MN Limited for the year ended 31<sup>st</sup> March, 2022 as per AS 4.

**(4 Parts x 5 Marks= 20 Marks)**

### Answer

- (a) (i) In the given case, company has created 3% provision for doubtful debts till 31<sup>st</sup> March, 2020. Subsequently from 1<sup>st</sup> April, 2020, the company revised the estimates based on the changed circumstances and wants to create 4% provision. Thus, change in rate of provision of doubtful debt is change in estimate and is not

change in accounting policy. This change will affect only current year.

- (ii) As per AS 5 “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous transaction, will neither be treated as change in an accounting policy nor change in accounting estimate.
- (iii) Change in useful life of furniture from 5 years to 3 years is a change in accounting estimate and is not a change in accounting policy.
- (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is neither a change in accounting policy nor a change in accounting estimate.
- (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

**(b) Statement of profit and Loss for the year ended 31<sup>st</sup> March, 2022 (An Extract)**

	₹
Profit before taxes and depreciation	1,28,000
Less: Depreciation (56,000+ 6,000)	<u>62,000</u>
Profit before tax	66,000
Less: Current tax (W.N)	(32,400)
Deferred Tax	<u>Nil</u>
Profit after tax	33,600

**Working Note:**

**Computation of taxable income**

	₹
Profit before taxes and depreciation	1,28,000
Less: Depreciation (38,000+ 24,000)	<u>(62,000)</u>
	66,000
Add: Donation*	<u>15,000</u>
	<u>81,000</u>
Current tax (40%)	<u>32,400</u>

**Note:** The profit of ₹ 1,28,000 given in the question is before depreciation and taxes. It has been considered that this amount is after making adjustment of donation amounting ₹ 15,000.

**Impact of various items in terms of deferred tax liability/deferred tax asset**

Transactions	Nature of difference	Effect	Amount
(1) Difference in depreciation (old machinery)	Timing difference	Reversal of DTL	₹ 18,000 (56,000 – 38,000) × 40% = (+) ₹ 7,200
(2) Depreciation on new machinery	Timing difference	Creation of DTL	₹ 18,000 (24,000 – 6,000) × 40% = (-) ₹ 7,200
(3) Donation to private trusts	Permanent difference	Not applicable	--
<b>Net Effect of Deferred Tax</b>			NIL

**(c) Computation of Basic earnings per share**

	Earnings ₹	Shares	Earnings/ Share ₹
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Basic earnings per share (72,00,000/30,00,000)			2.40

**Computation of Diluted earnings per share**

	Earnings ₹	Shares	Earnings/Share ₹
Net profit for the year 2022	72,00,000		
Weighted average no. of shares during year 2022		30,00,000	
Number of shares under option		6,00,000	
Number of shares that would have been issued at fair value (6,00,000 × 20.00)/25.00		(4,80,000)	
Diluted earnings per share	<u>72,00,000</u>	<u>31,20,000</u>	<u>2.31</u> (rounded-off)

Note: The earnings have not been increased as the total number of shares has been increased only by the number of shares (1,20,000) deemed for the purpose of the computation to have been issued for no consideration.

To the extent that partly paid shares are not entitled to participate in dividends during the reporting period they are considered the equivalent of options.

**(d) Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'**

- (i) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of note in the financial statements.
- (ii) On the basis of evidence provided, the claim against the company will not succeed. Thus, 12 crores should not be provided in the account but should be disclosed by means of a contingent liability with full details of the facts as per AS 29. Provision can be made for legal fee expected to be incurred to the extent that they are not expected to be recovered if the amount can be ascertained.
- (iii) The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale would be reflected in the financial statements ended on 31.3.2022 and the profit on sale of property ₹ 2,25,000 would be considered.

**Question 2**

The following is the Balance Sheet of Purple Limited as at 31<sup>st</sup> March, 2022:

<i>Particulars</i>	<i>Notes</i>	<i>Amount in ₹</i>
<i>I. Equity and Liabilities</i>		
(1) <i>Shareholders' Funds</i>		
(a) <i>Share Capital</i>	1	15,00,000
(b) <i>Reserves &amp; Surplus</i>	2	(3,00,000)
(2) <i>Current Liabilities</i>		
(a) <i>Trade Payables</i>		2,20,000
(b) <i>Short Term Borrowings – Bank Overdraft</i>		<u>2,00,000</u>
<i>Total</i>		<u>16,20,000</u>

II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
<i>Total</i>		16,20,000

**Notes to Accounts**

	₹	₹
(1) Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	<u>6,00,000</u>	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	<u>4,80,000</u>	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	<u>36,000</u>	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

- (i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- (ii) The value of equity shares is brought down to ₹ 8 per share.
- (iii) The arrears of dividend on preference shares are cancelled.
- (iv) The debit balance of Goodwill account is written off entirely.
- (v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.

(vii) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.

(viii) The balance of total capital reduction is to be utilized in writing down Patents.

(ix) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet. **(20 Marks)**

**Answer**

**Journal Entries In the books of Purple Ltd.**

	Particulars		Debit (₹)	Credit (₹)
1.	6% Preference share capital A/c To 8% Preference share capital A/c To Capital reduction A/c (Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)	Dr.	6,00,000	4,50,000 1,50,000
2.	Equity share capital A/c (₹ 10) To Equity share capital A/c (₹ 8) To Capital reduction A/c (Being equity capital reduced to nominal value of ₹ 8 each)	Dr.	9,00,000	7,20,000 1,80,000
3.	Capital Reduction A/c To Goodwill A/c To Land and Building A/c To Plant and Machinery A/c To Trade Receivables A/c (Book debts) To Patents A/c (Bal. fig.) To Profit and loss A/c (Being losses and assets written off to the extent required)	Dr.	3,30,000	84,600 81,000 96,000 14,400 24,000 30,000

4.	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5.	Bank overdraft A/c	Dr.	2,00,000	
	To Bank A/c			2,00,000
	(Being Bank overdraft repaid)			

**Capital Reduction Account**

	Particulars	₹		Particulars	₹
To	Goodwill A/c	84,600	By	Equity Share Capital A/c	1,80,000
To	Land & Building A/c	81,000	By	6% Preference Share Capital A/c	1,50,000
To	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts) A/c	14,400			
To	Profit & Loss A/c	30,000			
To	Patents A/c (Bal. fig.)	<u>24,000</u>			
		<u>3,30,000</u>			<u>3,30,000</u>

**Balance Sheet of Purple Ltd. (and reduced)  
as at 31.3.2022**

	Particulars	Notes	₹
	<b>Equity and Liabilities</b>		
1	<b>Shareholders' funds</b>		
a	Share capital	1	11,70,000
b	Reserves and surplus	2	(2,70,000)
2	<b>Current liabilities</b>		
a	Short term borrowings (Secured Bank Loan)		4,80,000
b	Trade Payables		<u>2,20,000</u>
	Total		<u>16,00,000</u>
	<b>Assets</b>		
1	<b>Non-current assets</b>		
a	Property, plant and equipment	3	8,43,000
b	Intangible assets	4	12,000



2		<b>Current Assets</b>		
	a	Inventory		1,70,000
	b	Trade receivables	5	2,87,400
	c	Cash and cash equivalents (7,600+4,80,000-2,00,000)		<u>2,87,600</u>
		Total		<u>16,00,000</u>

**Notes to Accounts:**

			₹
1.	Share Capital		
	Authorized		
	Issued, subscribed and paid up:		
	90,000 equity shares of ₹ 8 each fully paid	7,20,000	
	8% Preference share capital*	<u>4,50,000</u>	11,70,000
2.	Reserves and Surplus		
	Profit and Loss Account (Dr. balance)		(2,70,000)
3.	Property plant and equipment		
	Land and Building	4,59,000	
	Plant and Machinery	<u>3,84,000</u>	8,43,000
4.	Intangible assets		
	Patent ₹ (36,000 - 24,000)		12,000
5.	Trade Receivables		
	Sundry Debtors	3,01,800	
	Less: Bad debts	<u>(14,400)</u>	2,87,400

**Note:** \*Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

**Working Notes:****1. Calculation of new Preference Shares**

Rate of return	:	6% on Preference Shares	
Dividend	:	$(6/100) \times ₹ 6,00,000$	= ₹ 36,000
Rate of return	:	8% on Preference Shares	
Dividend	:	$(8/100) \times X =$	₹ 36,000
		$X = (36,000/8) \times 100 =$	₹ 4,50,000

New Preference Share Capital	=	₹ 4,50,000
Old Preference Share Capital	=	₹ 6,00,000
(6,00,000 – 4,50,000)	=	₹ 1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

**3. Calculation of Amount written off on Land & Building and Plant & Machinery**

Land & Building	= (85/100) x 5,40,000	= ₹ 4,59,000
Plant & Machinery	= (80/100) x 4,80,000	= ₹ 3,84,000
Reduced by:		
Land & Building	= (5,40,000 - 4,59,000)	= ₹ 81,000
Plant & Machinery	= (4,80,000 - 3,84,000)	= ₹ 96,000

**Question 3**

- (a) H Ltd. and S Ltd. provide the following information as at 31<sup>st</sup> March, 2022:

	H Ltd. ₹	S Ltd. ₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	-
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹ 10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

**Additional information:**

H Ltd. acquired the shares of S Ltd. on 1<sup>st</sup> July, 2021 and Balance of profit and loss account of S Ltd. on 1<sup>st</sup> April, 2021 was ₹ 60,000. Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31<sup>st</sup> March, 2022. **(15 Marks)**

- (b) DS Finance Limited is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 100 lakhs of which instalments are overdue on:
- 400 accounts for last one month (amount overdue ₹ 20 lakhs),
  - 24 accounts for two months (amount overdue ₹ 12 lakhs),

- 10 accounts for more than 30 months (amount overdue ₹ 10 lakhs)
- 4 accounts for more than 3 years (amounts overdue ₹ 10 lakhs - already identified as sub-standard assets)
- 1 account of ₹ 5 lakhs which has been identified as non-recoverable by management.
- Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 3 lakhs) for more than 12 months and others are identified as sub-standard assets for a period of less than twelve months.

Classify the assets of the company in line with Non-Banking Financial Company-Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016. **(5 Marks)**

**Answer**

**(a) Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.  
as at 31<sup>st</sup> March, 2022**

		Note No	Amount (₹)
	<b>I Equity and Liabilities</b>		
1	Shareholders' Fund:		
	(a) Share Capital	1	3,00,000
	(b) Reserve and Surplus	2	1,10,500
2	Minority interest	3	84,000
3	Current Liabilities		
	Trade payables	4	3,20,000
	Total		8,14,500
	<b>II Assets</b>		
1	Non-Current Assets:		
	Property, plant and equipment	5	4,60,000
	Intangible Asset	6	66,500
2	Current Assets	7	2,88,000
	Total		8,14,500

**Notes to Accounts**

		Amount (₹)
1	Share capital 30,000 Equity Shares @ ₹10 each	3,00,000

2	Reserve and Surplus	
	Profit and loss account (₹ 1,00,000 + 70% of 9/12 x 20,000 i.e. ₹ 10,500)	1,10,500
3	Minority Interest (W/N 2)	84,000
4	Trade payables	
	H Ltd.	2,00,000
	S Ltd.	1,20,000
		3,20,000
5	Property, plant and equipment	
	H Ltd.	2,00,000
	S Ltd.	2,60,000
		4,60,000
6	Intangible Asset:	
	Goodwill (W/N 3)	66,500
7	Current Assets	
	H Ltd.	1,48,000
	S Ltd.	<u>1,40,000</u>
		2,88,000

**Working Notes:**1. **Percentage of holding**

	No. of Shares	Percentage
Holding Co.	: 14,000	(70%)
Minority shareholders	: <u>6,000</u>	(30%)
Total Shares	: <u>20,000</u>	

2. **Calculation of Minority Interest**

Share capital (30% of ₹ 2,00,000)	60,000	
Share in Profit and loss account (₹ 80,000 X 30%)	<u>24,000</u>	84,000

3. **Calculation of Cost of Control (Goodwill)**

Cost of Investment	2,52,000
Less: Paid up value of shares (70% of ₹ 2,00,000)	(1,40,000)
Share in pre-acquisition profits 70% of [60,000 + 3/12(80,000 - 60,000)]	(45,500)
	<u>66,500</u>

- (b) Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

		(₹ in lakhs)
<b>Standard Assets:</b>		
Accounts (Balancing figure)	43.00	
400 accounts overdue for a period of 1 month	20.00	
24 accounts overdue for a period of 2 months	<u>12.00</u>	75.00
<b>Sub-Standard Assets:</b>		
4 accounts identified as sub-standard asset for a period less than 12 months		7.00
<b>Doubtful Debts:</b>		
6 accounts identified as sub-standard for a period more than 12 months		3.00
4 accounts identified as sub-standard for a period more than 3 years		10.00
<b>Loss Assets</b>		
1 account identified by management as loss asset		<u>5.00</u>
Total overdue		<u>100.00</u>

#### Question 4

- (a) M, N and O were in partnership sharing profits and losses in the ratio of 3:2: 1. There was no provision in the agreement for interest on capitals or drawings.

M died on 31<sup>st</sup> March, 2021 and on that date, the partners' balances were as under:

Capital Account: M- ₹ 75,000 (Cr); N- ₹ 50,000 (Cr); O- ₹ 25,000 (Cr)

Current Account: M- ₹ 50,000 (Cr); N- ₹ 37,500 (Cr); O- ₹ 12,500 (Dr)

By the partnership agreement, the sum due to M's estate was required to be paid within a period of 3 years, and minimum instalment of ₹ 37,500 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 6% was to be credited half-yearly.

In ascertaining M's share, Goodwill (not recorded in the books) was to be valued at ₹ 1,12,500 and the assets, excluding the Joint Assurance Policy (mentioned below) were valued at ₹ 75,000 in excess of the book values.

No Goodwill account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 50,000 matured on 01.04.2021, realizing ₹ 65,000; payment of ₹ 37,500 each were made to M's Executors on 01.04.2021, 30.09.2021 and 31.03.2022. N and O continued trading on the same terms and conditions

as previously and the net profit for the year ending 31.03.2022 (before charging the interest due to M's estate) amounted to ₹ 65,000. During that period, the partners' drawings were N - ₹ 18,750 and O - ₹ 10,000.

On 01.04.2022, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 2,25,000 was accepted on that day. A cheque for that sum was received on 30.06.2022.

The balance due to M's estate, including interest, was paid on 30.06.2022 and on that day, N and O received the sums due to them.

You are required to write-up the Partners' Capital Accounts and Partners' Current Accounts from 01.04.2021 to 30.06.2022. Show also the account of executors of M. **(15 Marks)**

(b) Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) firm in respect of the following:

- (i) Applicable Law
- (ii) Perpetual Succession
- (iii) Ownership of Assets
- (iv) Liability of Partners / Members
- (v) Principal-Agent Relationship

**(5 Marks)**

**Answer**

(a)

**Partners' Current Accounts**

Particulars	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
31.3.2021				31.3.2021			
To Balance b/d	-	-	12,500	By Balance b/d	50,000	37,500	-
To M's Current A/c- goodwill	-	37,500	18,750	By N's Current A/c- goodwill	37,500	-	-
To M's Current A/c- Revaluation Profit	-	25,000	12,500	By O's Current A/c- goodwill	18,750	-	-
To M's Capital A/c- transfer	1,51,250	-	-	By N's Current A/c- Revaluation profit	25,000	-	-
				By O's Current A/c- Revaluation profit	12,500		

				By Joint assurance policy	7,500	5,000	2,500
				By Balance c/d		20,000	41,250
	1,51,250	62,500	43,750		1,51,250	62,500	43,750
1.4.21				31.3.22			
To Balance b/d		20,000	41,250	By Profit & Loss Appropriation A/c (43,920)		29,280	14,640
31.3.22				By Balance c/d		9,470	36,610
To Drawings A/c		<u>18,750</u>	<u>10,000</u>			<u>38,750</u>	<u>51,250</u>
		<u>38,750</u>	<u>51,250</u>				
1.4.22				1.4.22			
To Balance b/d		9,470	36,610	By Realization A/c -profit		38,137	19,068
To N's Capital A/c-transfer		<u>28,667</u>	<u>-</u>	By O's Capital A/c - transfer		<u>-</u>	<u>17,542</u>
		<u>38,137</u>	<u>36,610</u>			<u>38,137</u>	<u>36,610</u>

**Partners' Capital Accounts**

Particulars	M ₹	N ₹	O ₹	Particulars	M ₹	N ₹	O ₹
31.3.21				31.3.21			
To M's Executors A/c	<u>2,26,250</u>	----	---	By Balance b/d	75,000	50,000	25,000
To Balance c/d	---	<u>50,000</u>	<u>25,000</u>	By M's Current A/c	<u>1,51,250</u>	---	---
	<u>2,26,250</u>	<u>50,000</u>	<u>25,000</u>		<u>2,26,250</u>	<u>50,000</u>	<u>25,000</u>
31.3.22				1.4.21			
To Balance c/d		<u>50,000</u>	<u>25,000</u>	By Balance b/d		<u>50,000</u>	<u>25,000</u>
		<u>50,000</u>	<u>25,000</u>			<u>50,000</u>	<u>25,000</u>
1.4.22				1.4.22			
To O's Current A/c - transfer		---	17,542	By Balance b/d		50,000	25,000
30.6.22				By N's Current A/c - transfer		<u>28,667</u>	---
To Bank A/c		<u>78,667</u>	<u>7,458</u>			<u>78,667</u>	<u>25,000</u>
		<u>78,667</u>	<u>25,000</u>			<u>78,667</u>	<u>25,000</u>

**M's Executor's Account**

Date	Particulars	Amount	Date	Particulars	Amount
31.3.2021	To Balance c/d	<u>2,26,250</u>	31.3.2021	By M's Capital A/c	<u>2,26,250</u>
		<u>2,26,250</u>			<u>2,26,250</u>
1.4.2021	To Bank	37,500	1.4.2021	By Balance b/d	2,26,250
30.9.2021	To Bank	37,500	30.9.2021	By Interest A/c	11,325
30.9.2021	To Balance c/d	<u>1,62,575</u>		(12% p.a. for 6 months)	-----
		<u>2,37,575</u>			<u>2,37,575</u>
31.3.2022	To Bank	37,500	1.10.2021	By Balance b/d	1,62,575
31.3.2022	To Balance c/d	<u>1,34,830</u>	31.3.2022	By Interest A/c	9,755
		<u>1,72,330</u>		(12% p.a. for 6 months)	-----
		<u>1,72,330</u>			<u>1,72,330</u>
30.6.2022	To Bank	1,38,875	1.4.2022	By Balance b/d	1,34,830
		-----	30.6.2022	By Interest	4,045
		<u>1,38,875</u>		(12% p.a. for 3 months)	-----
		<u>1,38,875</u>			<u>1,38,875</u>

**Working Notes:****(1) Adjustment in regard to Goodwill**

Partners		M	N	O
Share of goodwill before death	(₹)	56,250	37,500	18,750
Share of goodwill after death	(₹)	-	<u>75,000</u>	<u>37,500</u>
Gain (+)/Sacrifice (-)	(₹)	<u>(56,250)</u>	<u>37,500</u>	<u>18,750</u>
		Cr.	Dr.	Dr.

**(2) Adjustment in regard to revaluation of assets**

Partners		M	N	O
Share of profit on revaluation credited to all the partners (75,000 in 3:2:1)	(₹)	37,500	25,000	12,500
Debited to the continuing partners	(₹)	-	<u>50,000</u>	<u>25,000</u>
	(₹)	<u>(37,500)</u>	<u>25,000</u>	<u>12,500</u>
		Cr.	Dr.	Dr.



**(3) Ascertainment of Profit for the year ended 31.3.22**

	₹	₹
Profit before charging interest on balance due to M's executors		65,000
Less: Interest payable to M's executors:		
From 1.4.21 to 30.9.21	11,325	
From 1.10.21 to 31.3.22	<u>9,755</u>	<u>(21,080)</u>
Balance of profit to be shared by N and O in 2:1		43,920

**(4) Ascertainment of Sundry Assets as on 31.3.22**

Liabilities	₹	Assets	₹
Capital Account – N	50,000	Sundry Assets (balancing figure)	1,63,750
Capital Account – O	25,000	Partner's Current A/c – N	9,470
M's Executors A/c	<u>1,34,830</u>	Partner's Current A/c- O	<u>36,610</u>
	<u>2,09,830</u>		<u>2,09,830</u>

**(5) Realization Account**

	₹		₹
To Sundry Assets A/c	1,63,750	By Bank A/c (purchase consideration)	2,25,000
To Interest A/c– M's Executors	4,045		
To Partner's Current A/c – N	{38,137		
To Partner's Current A/c – O	<u>19,068}</u>		
	<u>2,25,000</u>		<u>2,25,000</u>

**(6) Bank Account**

	₹		₹
To Purchase consideration	2,25,000	By M's Executors A/c	1,38,875
		By Partner's Capital - N	78,667
		By Partner's Capital - O	<u>7,458</u>
	<u>2,25,000</u>		<u>2,25,000</u>

**Note:**

- As per the information given in the question, Interest @ 6% was to be credited half-yearly to M's executor's account. Hence the rate of 12% per annum has been considered in the solution while working the interest computations.

2. Interest computations have been rounded off.

**(b) Distinction between an ordinary partnership firm and an LLP**

	Basis	LLP	Partnership firm
1.	Applicable law	The Limited Liability Partnership Act, 2008.	The Indian Partnership Act, 1932.
2.	Perpetual succession	The death, insanity, retirement or insolvency of the partner(s) does not affect its existence of LLP. Members may join or leave but its existence continues forever.	The death, insanity, retirement or insolvency of the partner(s) may affect its existence. It has no perpetual succession.
3.	Ownership of assets	The LLP as an independent entity can own assets	Firm cannot own any assets. The partners own the assets of the firm
4.	Liability of Partners/ Members	Liability of each partner is limited to the extent to agreed contribution except in case of willful fraud.	Liability of each partner is unlimited. Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets
5.	Principal-agent relationship	Partners are agents of the firm only and not of other partners.	Partners are the agents of the firm and of each other

**Question 5**

(a) Following information of RJS Bank Limited for the year ended 31<sup>st</sup> March, 2022 are as under:

Particulars	₹ in '000
Total interest earned and received on term loans	6375.00
Interest earned on term loans classified as NPA	1827.50
Interest received on term loans classified as NPA	595.00
Total interest earned on cash credits and overdrafts	14157.50
Interest earned but not received on cash credits and overdrafts treated as NPA	2307.50
Interest on Deposits	10300.00
Commission, exchange and brokerage	502.50
Profit on sale of Investments	4690.00

<i>Profit on revaluation of Investments</i>	855.00
<i>Income from Investments</i>	5435.00
<i>Payment to and provision for employees</i>	6862.50
<i>Rent, Taxes and Lighting</i>	962.50
<i>Printing and Stationery</i>	155.00
<i>Director's fees, allowances and expenses</i>	782.50
<i>Repairs and Maintenance</i>	140.00
<i>Depreciation on Bank's property</i>	247.50
<i>Insurance</i>	107.50

**Classification of Assets:**

<i>Particulars</i>	<i>₹</i>
<i>Standard [including advances to Commercial Real Estate (CRE) sector ₹ 17,50,000]</i>	11,750
<i>Sub-standard (fully secured)</i>	4,750
<i>Doubtful Assets not covered by security</i>	1,000
<i>Doubtful Assets covered by security for 1 year</i>	100
<i>Loss Assets</i>	750

You are required to prepare Profit and Loss account of RJS Bank Limited including Schedules for the year ended 31<sup>st</sup> March, 2022 and calculate provision required to be made on Risk Assets. **(15 Marks)**

- (b) Proud Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's banker to whom the company owes ₹ 10 crores. The company owes the following amounts to others:
- (i) Dues to workers- ₹ 2,50,00,000
  - (ii) Taxes payable to Government- ₹ 60,00,000
  - (iii) Unsecured Creditors- ₹ 1,20,00,000

You are required to compute with the reference to the provisions of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only ₹ 8,00,00,000. **(5 Marks)**

## Answer

(a)

**RJS Bank**  
**Profit and Loss Account**  
**For the year ended 31st March, 2022**

Particulars	Schedule	(₹'000') Year ended 31-3-2022
I Income		
Interest earned	13	23,660.00
Other income	14	6,047.50
		29,707.50
II Expenditure		
Interest expended	15	10,300.00
Operating expenses	16	9,257.50
Provisions and Contingencies (refer W.N)		2,545
		22,102.50
III Profit/Loss		7,605.00

**Schedule 13 - Interest Earned**

	Year ended 31-3-2022 (₹'000')
I Interest/discount on advances/bills	
Interest on term loans *	6,375.00
Interest on cash credits and overdrafts (14157.50-2307.50)	11,850.00
II Income on investments	5,435.00
	23,660.00

**Schedule 14 - Other Income**

	Year ended 31-3-2022 (₹'000')
Commission, exchange and brokerage	502.50

Profit on sale of investments	4690
Profit on revaluation of investments	<u>855</u>
	<u>6047.50</u>

**Schedule 15 - Interest Expended**

	<i>Year ended 31-3-2022</i>
I Interest on Deposits	10,300

**Schedule 16 - Operating Expenses**

	<i>Year Ended 31-3-2022</i>
I Payment and provision for employees Salaries, allowances and bonus	6862.50
II Rent, taxes and lighting	962.50
III Printing & stationery	155.00
IV Director's fee, allowances and expenses	782.50
V Depreciation on the Bank's Property	247.50
VI Repairs & maintenance	140.00
VII Insurance	107.50
	<u>9,257.50</u>

**Working Note:**

<b>Calculation of Provisions amount on risk assets</b>		<i>(₹'000)</i>
<b>Provision for NPA:</b>		
Standard (excluding advances to Commercial Real Estate (CRE) Sector 11,750-1,750)	$10,000 \times 0.40\%$	40
Standard - advances to Commercial Real Estate (CRE)	$1,750 \times 1\%$	17.5
Sub-standard- fully secured	$4750 \times 15\%$	712.5
Doubtful assets not covered by security	$1,000 \times 100\%$	1000
Doubtful covered by security for one year	$100 \times 25\%$	25
Loss Assets	$750 \times 100\%$	750
		<u>2,545</u>

**Note:** \*The amount of total interest earned and received on term loans amounting ₹ 63,75,000 is given in the question. It has been assumed in the given answer that this amount does not include any amount of interest earned but not received on term loans (classified as NPA). Hence no adjustment for the amount of interest earned but not received on term loans (classified as NPA) has been done. Alternatively, it may be assumed that the amount of total interest earned and received on term loans amounting ₹ 63,75,000 is inclusive of interest amount earned but not received on term loans classified as NPA. In this case, the Profit and Loss Account and Schedule 13 will be changed and will be given as follows (Schedules 14 to 16 and Working Note will remain same):

**RJS Bank**

**Profit and Loss Account**

**For the year ended 31st March, 2022**

Particulars	Schedule	Year ended 31-3-2022 (₹'000')
I Income		
Interest earned	13	22,427.50
Other income	14	6,047.50
		28,475
II Expenditure		
Interest expended	15	10,300.00
Operating expenses	16	9,257.50
Provisions and Contingencies (refer W.N)		2,545
		22,102.50
III Profit/Loss		6,372.50

**Schedule 13 - Interest Earned**

	Year ended 31-3-2022 (₹'000')
I Interest/discount on advances/bills	
Interest on term loans [6375- (1827.50-595)]	5,142.50
Interest on cash credits and overdrafts (14157.50-2307.50)	11,850.00
II Income on investments	5,435.00
	22,427.50

Interest on NPA is recognized on cash basis, hence excess reduced.

- (b) Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari-passu change in favor of the workman to the extent of their portion.

$$\begin{aligned} \text{Workman's Share to Secured Asset} &= \frac{\text{Amount Realized X Workman's Dues}}{\text{Workman's Dues + Secured Loan}} \\ &= \frac{8,00,00,000 \times 2,50,00,000}{2,50,00,000 + 10,00,00,000} \\ &= 8,00,00,000 \times \frac{1}{5} \end{aligned}$$

Workman's Share to Secured Assets = ₹1,60,00,000

Amount available to secured creditor is ₹ 800 Lakhs – ₹160 Lakhs = ₹ 640 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

**Question 6**

Answer any **four** of the following:

- (a) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.
- (i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.
  - (ii) Instalment Sales.
  - (iii) Trade discounts and volume rebates.
  - (iv) Insurance agency commission for rendering services.
  - (v) Advertising commission.
- (b) PG Limited furnishes the following Balance Sheet as at 31<sup>st</sup> March, 2022:

	Particulars	Notes	₹ (in Lakhs)
1.	Equity and Liabilities		
	Shareholders' funds		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2	Current liabilities		
	(a) Trade Payables		7,450

	(b) Other Current Liabilities		1,950
		Total	29,500
	Assets		
1	Non-current assets		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2.	Current assets		
	(a) Inventories		6,000
	(b) Trade receivables		2,600
	(c) Cash and cash equivalents		7,400
		Total	29,500

Notes to accounts:

	Particulars	₹ (in Lakhs)
1.	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹10 each)	<u>12,000</u>
2.	Reserves and Surplus	
	Securities premium	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	<u>1,700</u>
	Total	<u>8,100</u>

On 1<sup>st</sup> April, 2022, 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 ₹750 lakhs.

On 5<sup>th</sup> April, 2022, the company achieved the target of buy-back. You are required to pass necessary journal entries for the above transactions.

- (c) At the beginning of year 1, an enterprise grants 1,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is ₹400. However, the exercise price drops to ₹300 if the earnings of the enterprise increase by at-least an average of 10 percent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹300, is ₹160 per option. If the exercise price is ₹400, the enterprise estimates that the stock options have a fair value of ₹120 per option.



During year 1, the earnings of the enterprise increased by 12 percent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 300.

During year 2, the earnings of the enterprise increased by 13 percent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise increased by only 3 percent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 1,000 vested stock options have an exercise price of ₹ 400, You are required to calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

- (d) At the end of the financial year ending on 31<sup>st</sup> March, 2022, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

Particulars	Probability	Loss (₹)
In respect of five cases (Win)	100%	-
Next ten cases (Win)	50%	-
Lose (Low damages)	40%	12,00,000
Lose (High damages)	10%	20,00,000
Remaining five cases Win	50%	-
Lose (Low damages)	30%	10,00,000
Lose (High damages)	20%	21,00,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS - 29.

- (e) Star Limited agreed to take over Moon Limited on 1<sup>st</sup> April, 2022. The terms and conditions of takeover were as follows:
- Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
  - Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
  - 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

- to give the meaning of "consideration for the amalgamation' as per AS-14, and
- Calculate the amount of purchase consideration. **(4 parts x 5 Marks = 20 Marks)**

**Answer**

- (a) (i) **Delivery is delayed at buyer's request and buyer takes title and accepts billing:** Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.
- (ii) **Instalment sales:** When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.
- (iii) **Trade discounts and volume rebates:** Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
- (iv) **Insurance agency commissions for rendering services:** Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.
- (v) **Advertising commission:** Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

(b)

**In the books of PG Limited****Journal Entries**

<b>Date</b>	<b>Particulars</b>	<b>Dr.</b>	<b>Cr.</b>
<b>2022</b>			<b>(₹ in lakhs)</b>
April 1	Bank A/c Dr. To Investment A/c To P & L A/c (Profit on sale of investment) (Being investment sold on profit)	750	740 10
April 5	Equity share capital A/c Dr. Premium payable on buy-back A/c Dr. To Equity shares buy-back A/c (Being the amount due to equity shareholders on buy-back)	3,000 1,500	4,500

April 5	Securities Premium A/c	Dr.	1,500	
	To Premium payable on buy-back A/c (Being the amount of premium charged from securities premium account)			1,500
	Equity shares buy-back A/c	Dr.	4,500	
	To Bank A/c (Being the payment made on account of buy-back of 30 Lakh Equity Shares)			4,500
	Profit and Loss A/c	Dr.	1,700	
	General reserve A/c	Dr.	1,300	
	To Capital redemption reserve A/c (Being amount equal to nominal value of buy-back shares from free reserves transferred to capital redemption reserve account as per the law)			3,000

**Note:** 1. In the last entry given in the solution, it is possible to adjust transfer to Capital Redemption Reserve Account from different combinations of amounts from Securities Premium, General Reserve and Profit and Loss Account to the extent available.

2. Calculation of amount of Buy Back of Share: ₹12,000/10 X 25% X ₹ 15 = ₹ 4,500 Lakhs

- (c) Since the exercise price varies depending on the outcome of a performance condition which is not a market condition, the effect of that performance condition (i.e. the possibility that the exercise price might be ₹400 and the possibility that the exercise price might be ₹300) is not considered when estimating the fair value of the stock options at the grant date. Instead, the enterprise estimates the fair value of the stock options at the grant date under each scenario and revises the transaction amount to reflect the outcomes of that performance condition at the end of every year based on the information available at that point of time.

**Calculation of compensation expense to be charged every year:**

Year	Calculation	Cumulative expense (₹)	Expense for the year (₹)
1	1,000 x ₹ 160 x 1/3	53,333	53,333
2	1,000 x ₹ 160 x 2/3	1,06,667	(1,06,667 - 53,333) 53,334
3	1,000 x ₹ 120 x 3/3	1,20,000	(1,20,000 - 1,06,667) 13,333

- (d) According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

- (i) There is a present obligation arising out of past events but not recognized as provision.
- (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.
- (iii) The possibility of an outflow of resources embodying economic benefits is not remote.
- (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 50% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

Expected loss in next ten cases	=	40% of ₹ 12,00,000 + 10% of ₹ 20,00,000
	=	₹ 4,80,000 + ₹ 2,00,000
	=	6,80,000
Expected loss in remaining five cases	=	30% of ₹ 10,00,000 + 20% of ₹ 21,00,000
	=	₹ 3,00,000 + ₹ 4,20,000
	=	₹ 7,20,000

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of 1,04,00,000 (₹ 6,80,000 × 10 + ₹ 7,20,000 × 5) as contingent liability.

- (e) **Consideration** for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

<b>Computation of Purchase consideration</b>	<b>(₹)</b>	<b>Form</b>
For Preference Shareholders of Moon Ltd. (25,000 × ₹ 70)	17,50,000	25,000 Preference
For equity shareholders of Moon Ltd. (70,000 × ₹ 110)	77,00,000	70,000 Equity shares of Star Ltd.
	<u>1,25,000</u>	Cash
Total Purchase consideration	<u>95,75,000</u>	