SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ADVANCED ACCOUNTS

Test Code - CIM 8405

BRANCH - () (Date :)

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NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
(3) NEW QUESTION SHOULD BE ON NEW PAGE

ANSWER 1(A)

(i) The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig. However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date.

Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, for a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

The obligating event is the giving of the guarantee by Ace Ltd. for certain borrowings of Brew Ltd., which gives rise to an obligation. No outflow of benefits is probable at 31 March 2019.Thus no provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

During 2019-20, the financial condition of Brew Ltd. deteriorates and finally goes into liquidation. The obligating event is the giving of the guarantee, which gives rise to a legal obligation. At 31 March 2020, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Thus, provision is recognized for the best estimate of the obligation.

(5 MARKS)

ANSWER 1(B)

Following will be the treatment in the given cases:

(i) When sale price of Rs. 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of Rs.4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is Rs. 20 lakhs & sale price is Rs. 24 lakhs then profit of Rs. 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is Rs. 22 lakhs & sale price is Rs. 25 lakhs, profit of Rs. 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of Rs.3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is Rs. 25 lakhs & sale price is Rs. 18 lakhs, then loss of Rs. 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is Rs. 18 lakhs & sale price is Rs. 19 lakhs, then the loss of Rs. 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of Rs. 1 lakhs (19-18) should be amortised/deferred over lease period.

(5 MARKS)

ANSWER 1(C)

Journal Entries in the books of Suvidhi Ltd.

Date	*Particulars*	*Dr. (Rs.)*	*Cr. (Rs.)*
31.3.18	Bank A/c (60,000 shares x Rs. 30) Dr.	18,00,000	
	Employees stock compensation expense A/c Dr.	4,80,000	
	To Share Capital A/c (60,000 shares x Rs. 10)		6,00,000
	To Securities Premium (60,000 shares x Rs. 28)		16,80,000
	(Being shares issued under ESOP @ Rs. 30 to 1,200 employees)		
	Profit & Loss A/c Dr.	4,80,000	
	To Employees stock compensation expense A/c		4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

Working Note:

Fair value of an option = Rs. 38 – Rs. 30 = Rs. 8

Number of shares issued = 1,200 employees x 50 shares/employee = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2017-2018

= 60,000 shares x Rs. 8 = Rs. 4,80,000

Vesting period = 1 year

Expenses recognized in 2017-2018 = Rs. 4,80,000

(5 MARKS)

ANSWER 1(D)

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31 st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.

(5 MARKS)

ANSWER 2(A)

In the Books of P Ltd.

Realization Account

	Rs.		Rs.
To Land & Building	4,50,000	By 8% Debentures	2,00,000
To Plant & Machinery	6,20,000	By Trade Payables	88,000
To Furniture & Fitting	1,00,000	By PQ Ltd.	16,02,100
To Trade receivables	3,25,000	(Purchase consideration)	
To Inventory/Stock	2,33,000	By Equity Shareholders A/c	1,37,900
To Cash at Bank	2,08,000	(loss)	
To Cash in Hand	54,000		
To Preference shareholders (excess payment)	38,000		
	20,28,000		20,28,000

(2 MARKS)

Equity Shareholders Account

	Rs.		Rs.
To Realization A/c (loss)	1,37,900	By Share capital	8,20,000
To Equity Shares in PQ Ltd.	10,82,400	By Profit & Loss A/c	3,52,000
To Cash	1,01,700	By General Reserve	1,50,000
	13,22,000		13,22,000

(1.5 MARKS)

9% Preference Shareholders Account

To Preference Shares in PQ Ltd.	4,18,000	By Pref. Share capital	3,80,000
		By Realization A/c	38,000
	4,18,000		4,18,000

(1 MARK)

PQ Ltd. Account

To Realization A/c	16,02,100	By Shares in PQ Ltd.		
		For Equity	10,82,400	15,00,400
		For Pref.	4,18,000	
		By Cash		1,01,700
	16,02,100			16,02,100

(1.5 MARKS)

8% Debentures holders Account

	Rs.		Rs.
To 6% Debentures	2,00,000	By 8% Debenture	2,00,000
	2,00,000		**2,00,000**

(1 MARK)

Books of Q Ltd.

Realization Account

		Rs.			Rs.
To	Land & Building	3,40,000	By	8% Debentures	1,00,000
To	Plant & Machinery	4,50,000	By	Trade payables	1,60,000
To	Furniture & Fittings	50,000	By	Unsecured loan	1,75,000
To	Trade receivables	1,50,000	By	PQ Ltd. (Purchase	
To	Inventory	1,05,000		consideration)	7,92,250
To	Cash at bank	1,75,000	By	Equity Shareholders A/c	90,750
To	Cash in hand	20,000		Loss	
To	Pref. shareholders	28,000			
		13,18,000			**13,18,000**

(2 MARKS)

Equity Shareholders Account

	Rs.		Rs.
To Equity shares in PQ Ltd.	4,22,400	By Share Capital	3,20,000
To Realization	90,750	By Profit & Loss A/c	2,05,000
To Cash	61,850	By General Reserve	50,000
	5,75,000		**5,75,000**

(1 MARK)

9% Preference Shareholders Account

	Rs.		Rs.
To Preference Shares in PQ Ltd.	3,08,000	By Share Capital	2,80,000
		By Realization A/c.	28,000
	3,08,000		**3,08,000**

(1 MARK)

PQ Ltd. Account

	Rs.		Rs.
To Realization A/c.	7,92,250	By Equity shares in PQ Ltd. For Equity 4,22,400	

		Preference	3,08,000	7,30,400
		By Cash		61,850
	7,92,250			**7,92,250**

(1 MARK)

8% Debentures holders Account

	Rs.		Rs.
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000
	1,00,000		1,00,000

(1 MARK)

Working Notes :

(i) Purchase Consideration

	P Ltd.	Q Ltd.
	Rs.	Rs.
Payable to preference shareholders :		
Preference shares at Rs.22 per share	4,18,000	3,08,000
Equity Shares at Rs. 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)	1,01,700	61,850
	16,02,100	**7,92,250**

(ii) Value of Net Assets

		P Ltd.		Q Ltd.
		Rs.		Rs.
Land & Building		4,50,000		3,40,000
Plant & machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		2,08,000		1,75,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less : Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	-	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)

	P	Q
Plant & Machinery	6,20,000	4,50,000
Less : Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000

Less : Depreciation 10%	10,000	5,000
	90,000	45,000

*This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.

(2 MARKS)

ANSWER 2(B)

(a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued. **(1 MARK)**

(b) L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid- up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	2/3X30/100	=	3/15
M	=	2/3X30/100	=	3/15
N	=	2/3X20/100	=	2/15
O	=	2/3X20/100	=	2/15
X	=	1/3X40/100	=	2/15
Y	=	1/3X30/100	=	1/10
Z	=	1/3X20/100	=	1/15
K	=	1/3X10/100	=	1/30

(4 MARKS)

ANSWER 3

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

Particulars	*Note No.*	*(Rs.)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of Rs. 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		**25,25,500**
II. Assets		
(1) Non-current assets		

(a) Fixed assets		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(b) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		**25,25,500**

Notes to Accounts

				Rs.
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Tangible Assets			
	Machinery			
	H. Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)

				3,25,000
6.	Trade Receivables			
	H. Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H. Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2016**

	Rs.
Machinery	
Revaluation as on 1.4.2016	3,00,000
Less: Book value as on 1.4.2016	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2016	30,000
Less: Book value as on 1.4.2016	(40,000)
Loss on revaluation	(10,000)

2. **Calculation of short/excess depreciation**

	Machinery	***Furniture***
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. **Analysis of reserves and profits of S Ltd. as on 31.03.2017**

	Pre-acquisition profit upto 1.4.2016	***Post-acquisition profits (1.4.2016 – 31.3.2017)***	
	(Capital profits)	***General Reserve***	***Profit and loss account***
General reserve as on 31.3.2017	50,000	1,05,000	
Profit and loss account as on 31.3.2017	30,000		35,000
Upward Revaluation of machinery as on 1.4.2016	1,00,000		
Downward Revaluation of Furniture as on 1.4.2016	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

	Rs.
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110)* x 20%	(1,000)
	99,300

** considered that Rs. 55,000 is cost to H Ltd. Alternative solution considering it as cost to S Ltd. is also possible*

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (Rs. 64,000 + Rs.72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

(20 MARKS)

ANSWER 4(A)

(i) In the books of Lili Ltd.
Journal Entries

				Dr.	Cr.
	2017			Rs.	Rs.
1.	March 31	Equity Share Capital A/c (Rs.10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (Rs.7)			2,10,000
		(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (Rs. 10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (Rs. 5)			2,00,000
		(Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			
3.		Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
		Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
		To Equity Share Capital A/c			2,10,000

		(21,000 x Rs. 10) To Preference Share Capital A/c (20,000 x Rs.10) (Being post reduction, both classes of shares reconsolidated into Rs.10 each) s			2,00,000
4.		Cash Account To Trade Investments (Being trade investments liquidated in the open market)	Dr.	64,000	64,000
5.		Capital Reduction Account To Equity Share Capital Account (Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)	Dr.	32,000	32,000
6.		Capital Reduction Account To Cash Account (Being expenses of reconstruction scheme paid in cash)	Dr.	10,000	10,000
7.		9% Debentures Account Accrued Interest Account To Debenture holders Account (Being amount due to debenture holders)	Dr. Dr.	1,20,000 5,400	1,25,400
8.		Debenture holders Account Cash Account (2,10,000 – 1,25,400) To Freehold Land To Capital Reduction Account (2,10,000 – 1,20,000) (Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)	Dr. Dr.	1,25,400 84,600	1,20,000 90,000
9.		Capital Reduction Account To Cash Account (Being contingent liability of Rs.54,000 paid)	Dr.	54,000	54,000
10.		Cash Account To Capital Reduction Account (Being pending insurance claim received)	Dr.	12,500	12,500
11.		Capital Reduction Account To Trademarks and Patents To Goodwill A/c To Raw materials & Packing materials To Trade receivables A/c (Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)	Dr.	1,68,100	1,10,000 36,100 10,000 12,000
12.		Cash Account To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)	Dr.	1,26,000	1,26,000
13.		Bank Overdraft Account To Cash Account (Being cash balance utilized to pay off bank overdraft)	Dr.	2,23,100	2,23,100

14.		Capital Reduction Account Dr.	1,28,400	
		To Capital reserve Account		1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)		

(ii) Capital Reduction Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liabilitysettled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars			*Rs.*	*Particulars*		*Rs.*
To To		Investment 9% Debenture holders	64,000	By	Capital reduction (Contingent liability)	54,000
		(2,10,000-1,25,400)	84,600	By	Expenses	10,000
To		Capital reduction (insurance claim)	12,500	By	Temporary bank overdraft - From available cash (64,000+84,600+12,500 -54,000-10,000) 97,100	
To		Equity share capital 12,600 shares @ Rs.10 each	1,26,000		- From proceeds of equity share capital (2,23,100–97,100) 1,26,000	2,23,100
			2,87,100			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

(15 MARKS)

ANSWER 4(B)

Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	**Amount of Advances (Rs. in lakhs)**	**% age of provision**	**Amount of provision (Rs. in lakhs)**
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	15	2,400

Doubtful assets:			
For one year (secured)	6,000	25	1,500
For two to three years (secured)	4,000	40	1,600
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
Total provision required			9,080

(5 MARKS)

ANSWER 5

M/s Red, Black and White

Statement of Profit & Loss for the year ended on 31st March, 2019

	Rs.		Rs.
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :			
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	15,040		
	82,400		82,400

(2 MARKS)

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	Rs.
I	**Equity and Liabilities**		
	Share-holders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	21,200
	Total		2,60,240
II	**Assets**		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		26,240
	Total		2,60,240

(3 MARKS)

Notes to Account:

		Rs.
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building Rs.(1,20,000 – 6,000)	1,14,000

(1 MARK)

Working Notes:

1. Calculation of goodwill

Year ended March, 31

	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.	2018 Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
	(10,400)	29,600	49,600	59,600	69,600
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					(10,400)
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

(4 MARKS)

2. Partners' Capital Accounts

	Red	Black	White		Red	Black	White
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040				
				By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

(3 MARKS)

3. Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000

Red's Loan	20,000		Stock-in-trade	80,000
Add: Interest due	1,200	21,200	Cash (Balancing figure)	26,240*
		2,60,240		2,60,240

(2 MARKS)

4. Conversion into Company

		Rs.
Capital:	Red	1,13,120
	Black	1,14,880
	White	11,040
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of Rs. 30,304 (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of Rs. 36,768 (Rs. 47,808 less 11,040). Black withdraws Rs. 67,072 (Rs. 47,808 – Rs.1,14,880).

(2 MARKS)

5. Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

(1 MARK)

6. Closing cash balance* can also be derived as shown below:

	Rs.	Rs.
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		40,000
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	40,000	(60,000)
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		35,840
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	20,000	(92,000)
		26,240

(2 MARKS)

ANSWER 6(A)

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

		(Rs.in lakhs)
Standard Assets		
Accounts (Balancing figure)	172.00	
400 accounts overdue for a period for 2 months	80.00	
24 accounts overdue for a period by 3 months	48.00	300.00
Sub-Standard Assets		
4 accounts identified as sub-standard asset for a period less than 14 months		28.00
Doubtful Debts		
6 accounts identified as sub-standard for a period more than 14 months		12.00
4 accounts identified as sub-standard for a period more than 3 years		40.00
Loss Assets		
1 account identified by management as loss asset		20.00
Total overdue		400.00

(5 marks)

ANSWER 6(B)

Schedule III to the companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Sagar Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Sagar Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

(5 marks)

ANSWER 6(C)

Calculation of Basic Earning Per Share

$$\textbf{Basic EPS} = \frac{\text{Net Profit for the current year}}{\text{No. of Equity Shares}}$$

$$= \frac{2,50,00,000}{50,00,000}$$

Basic EPS per share = ₹5

Calculation of Diluted Earning Per Share

$$\textbf{Diluted EPS} = \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average no. of Equity Shares}}$$

Adjusted net profit for the current year	Rs.
Net profit for the current year	2,50,00,000
Add: Interest expenses for the current year	6,00,000
Less: Tax saving relating to Tax Expenses	(1,80,000)
	2,54,20,000

No. of equity shares resulting from conversion of debentures: 4,00,000 Shares

Weighted average no. of equity shares used to compute diluted EPS: (50,00,000 + 4,00,000) = 54,00,000 Equity Shares

Diluted earnings per share: (2,54,20,000/54,00,000) = Rs. 4.71 (Approx.)

(5 marks)

ANSWER 6(D)

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 paripassu change in favor of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realied X Workman's Dues}}{\text{Workman's Dues } + \text{Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{4,00,00,000 \text{ X } 1,25,00,000}{1,25,00,000 + 5,00,00,000}$$

$$4,00,00,000 \text{ X} \frac{1}{5}$$

$$\text{Workman's Share to Secured Assets} = 80,00,000$$

Amount available to secured creditor is Rs. 400 Lakhs – 80 Lakhs = 320 Lakhs

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

(5 marks)

ANSWER 6(E)

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

(i) that the enterprise, pursuant to a **single plan**, is:

(1) disposing of substantially in its entirety,

(2) disposing of piecemeal, or

(3) terminating through abandonment; and

(ii) that represents a separate major line of business or geographical area of operations; and

(iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

(i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or

(ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

(5 MARKS)