SUGGESTED SOLUTION

INTERMEDIATE

SUBJECT- ADVANCED ACCOUNTS

Test Code - CIM 8726

BRANCH - () (Date :)

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ANSWER -1

ANSWER –A

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2018 = Rs. 60,000 x .02 + Rs.40,000 x .03

= Rs.1,200 + Rs. 1,200 = Rs.2,400

As at 31st March, 2019 = Rs. 40,000 x .02 + Rs.1,35,000 x .03

= Rs.800 + Rs.4,050 = Rs.4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2019

	Rs.
Balance of provision required as on 31.03.2019	4,850
Less: Opening Balance as on 1.4.2018	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2019 in respect of sales amounting Rs. 60,000 made on 11th February, 2017 as the warranty period of 2 years has already expired.

(5 marks)

ANSWER –B

Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset

Transactions	Analysis	Nature of difference	Effect	Amount
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	Rs. (80-70) lakh X 30% = Rs. 3 lakh
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	Rs.10 lakh X 30% = Rs. 3 lakh

Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable

(5 marks)

ANSWER –C

$$\frac{\text{Fair value of shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}$$

$$\frac{102 \times 2{,}50{,}000\ shares + Rs.98 \times 1{,}00{,}000\ shares}{3{,}50{,}000\ shares}$$

Theoretical ex-rights fair value per share = Rs. 100.86

Computation of adjustment factor:

$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex} - \text{rights value per share}}$ **= 102/ 100.86 = 1.01**

Computation of earnings per share:

EPS for the year 2017-18 as originally reported: Rs. 50,00,000/2,50,000 shares = Rs. 20

EPS for the year 2017-18 restated for rights issue: =Rs. 50,00,000/ (2,50,000 shares x 1.01)

= Rs. 19.80

EPS for the year 2018-19 including effects of rights issue:

EPS = 75,00,000/3,25,625* = Rs. 23.03

** [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 shares*

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

(5 marks)

ANSWER –D

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.19. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2019.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2019 in the books of Fashion Ltd.

(5 marks)

ANSWER -2

ANSWER –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

(3 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	10,82,400	By	Profit & Loss A/c	3,52,000

	Ltd.				
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

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

(3 marks)

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 mark)

8% debentures holders account

To 6% debentures	2,00,000	By 8% debentures	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

(3 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

9% Preference Shareholders Account

	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

PQ Ltd. Account

	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

8% Debentures holders Account

	`		`
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

(4 marks)

Working Notes:

(i) Purchase consideration

	P ltd.	Q ltd.
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.
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%		308750		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.

ANSWER – B

Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
5% on Assets realised	(13,75,000 x 5%)	68,750
8% on payment made to Unsecured creditors (Refer W.N)		7,080
Total Remuneration payable to Liquidator		75,830

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors and liquidator's remuneration

Total amount realized	Rs.	Rs. 13,75,000
Less: Liquidation expenses paid	(13,000)	
Payment to secured creditors	(1,00,000)	
Liquidator's remuneration on assets realized	(68,750)	
		Rs. 1,81,750
		Rs.11,93,250

Sufficient amount is available for preference creditors (treated as unsecured creditors) therefore Liquidator's remuneration on payment to unsecured creditors = 8% x Rs. 88,500 = Rs. 7,080

Note: Since the amount of unsecured creditors (other than preferential creditors) is not given in the question, the above solution is based on the assumption that there are no unsecured creditors (other than preferential creditors who are treated as unsecured creditors).

(5 marks)

ANSWER -3

ANSWER –A

Journal Entries in the books of Platinum Ltd.

			Rs.	Rs.
	Bank A/c (1,00,000 x Rs. 10)*	Dr.	10,00,000	
	To Equity share capital A/c			10,00,000
	(Being money on final call received)			
	Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
	To Equity share capital (Rs. 40) A/c			60,00,000
	To Capital Reduction A/c			15,00,000
	(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			
	Bank A/c	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being new shares allotted at Rs. 40 each)			
	Trade payables A/c	Dr.	12,40,000	
	To Equity share capital A/c			7,50,000
	To Bank A/c (4,90,000 x 70%)			3,43,000
	To Capital Reduction A/c			1,47,000
	(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
	8% Debentures A/c**	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being cancellation of 8% and 12% debentures of Shiv)			

Bank A/c**	Dr.	1,00,000	
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			
Shiv A/c**	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
8% Debentures A/c***	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To Ganesh A/c			3,00,000
(Being cancellation of 8% and 12% debentures of Ganesh)			
Ganesh A/c***	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building (51,84,000 – 42,70,000)	Dr.	9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Goodwill A/c			22,00,000

	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

* Equity share final call A/c	Dr	10,00,000	
To Equity share capital A/c			10,00,000
Bank A/c	Dr	10,00,000	
To Equity share final call A/c			10,00,000
** 8% Debenture A/c	Dr	3,00,000	
12% Debenture A/c	Dr	4,00,000	
Bank A/c	Dr	1,00,000	
To Capital Reduction A/c			2,00,000
To 15% Debenture A/c			6,00,000
***8% Debenture A/c	Dr	1,00,000	
12% Debenture A/c	Dr	2,00,000	
To capital Reduction A/c			50,000
To 15% Debenture A/c			2,50,000

(10 marks)

Balance Sheet (as reduced) as on 31.3.2019

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	80,00,000
2		**Non-current liabilities**		

	a Long-term borrowings	2	8,50,000
	Total		**88,50,000**
	Assets		
1	**Non-current assets**		
a	Property, Plant and Equipment		
	Tangible assets	3	**63,04,000**
2	**Current assets**		
a	Inventories		**3,50,000**
b	Trade receivables		**9,81,000**
c	Cash and cash equivalents		**12,15,000**
	Total		**88,50,000**

Notes to accounts

			Rs.
1.	**Share Capital**		
	2,00,000 Equity shares of Rs. 40		80,00,000
2.	**Long-term borrowings**		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	**Tangible assets**		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

1. Cash at Bank Account

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Balance b/d	2,68,000	By	Trade Creditors A/c	3,43,000
To	Equity Share capital A/c	10,00,000	By	Outstanding expenses A/c	10,60,000
To	Equity Share Capital A/c	12,50,000	By	Balance c/d (bal. fig.)	12,15,000
To	Shiv A/c	1,00,000			
		26,18,000			26,18,000

2. **Capital Reduction Account**

	Particulars	*Rs.*		*Particulars*	*Rs.*
To	Machinery A/c	1,30,000	By	Equity Share Capital A/c	15,00,000
To	Computers A/c	1,20,000	By	Trade Creditors A/c	1,47,000
To	Trade receivables A/c	1,09,000	By	Shiv A/c	2,00,000
To	Goodwill A/c	22,00,000	By	Ganesh A/c	50,000
To	Profit and Loss A/c	7,82,000	By	Land & Building	9,14,000
			By	Inventories	30,000
			By	Capital Reserve A/c	5,00,000
		33,41,000			33,41,000

(5 marks)

ANSWER –B

Statement showing computation of 'Net Owned Fund'

		Rs. in 000
Paid up Equity Capital		100
Free Reserves		500
		600
Less: Deferred expenditure		(200)
	A	400
Investments		
In shares of subsidiaries and group companies		100
In debentures of subsidiaries and group companies		100
	B	200
10% of A		40
Excess of Investment over 10% of A (200-40)	C	160
Net Owned Fund [(A) - (C)] (400-160)		240

(5 marks)

ANSWER -4

ANSWER –A

(a) Number of Shares to be issued to Partners

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

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

(5 marks)

(b) Partners' Capital Accounts

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

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

(3 marks)

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

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

Notes to Accounts

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

Working Note:

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

Particulars	**Rs.**	**Rs.**	**Particulars**	**Rs.**
To Interest on Capital:			By Net Profit (given)	2,48,600
Mohit [Rs. 1,36,000 x 10%]	13,600			
Neel [Rs. 90,000 x 10%]	9,000			
Om [Rs. 46,000 x 10%]	4,600	27,200		

To Profits transferred to Capital in profit sharing ratio 5:3:2 Mohit Neel Om	1,10,700 66,420 44,280	2,21,400		
Total		2,48,600		

2. Statement showing Additional Drawings in Cash

(a) Funds available for Drawings

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

(b) Ascertainment of Additional Drawings

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

Note: Alternatively, amount of Additional drawings in partners capital account can also be considered as bal. figure

(7 marks)

ANSWER –B

Fair value of an option = Rs. 67(considered on grant date) – Rs. 60 = Rs.7

Number of shares issued = 600 employees x 150 shares/employee = 90,000 shares

Fair value of ESOP = 90,000 shares x Rs. 7 = Rs.6,30,000

Vesting period = 1 year

Expenses recognized in 2018-19 = Rs. 6,30,000

Date	*Particulars*		*Rs.*	*Rs.*
31.03.2019	Bank (90,000 shares x Rs. 60)	Dr.	54,00,000	
	Employees stock compensation expense A/c	Dr.	6,30,000	
	To Share Capital (90,000 shares x Rs. 10)			9,00,000

	To Securities Premium (90,000shares x Rs. 57) (Being option accepted by 600 employees & payment made @ Rs. 60 per share)		51,30,000
	Profit & Loss A/c Dr. To Employees stock compensation expense A/c (Being Employees stock compensation expense transferred to Profit & Loss A/c)	6,30,000	6,30,000

(5 marks)

ANSWER -5

ANSWER –A

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P	Minority's Share of losses borne by A Ltd.		Cost of Control
			& L (Dr.) Cr.	Rs.	balance	
At the time of acquisition in 2010		3,24,000 (W.N)	-			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000
Balance		2,49,000				
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			

2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		Nil	50,000			
2015-16	1,00,000	30,000	70,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(30,000)	30,000	(30,000)	12,000	2,44,000
Balance		Nil	100,000			
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

Working Note:

		Share of Holding Co.	**Minority Interest**
	100%	**70%**	**30%**
	(Rs.)	**(Rs.)**	**(Rs.)**
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

(12 marks)

ANSWER –B

KLM Bank Limited

Profit and Loss Account for the year ended 31st March, 20X2

		Schedule	**Year ended 31.03.20X2 (Rs.)**
I.	Income: Interest earned Other income	 **13** **14**	 37,95,160 4,87,800
	Total		42,82,960
II.	Expenditure: Interest expended Operating expenses Provisions and contingences (4,50,000 + 2,00,000 + 2,00,000)	 **15** **16**	 22,95,360 5,70,340 8,50,000
	Total		37,15,700
III.	Profit/losses Net profit for the year Profit brought forward		 5,67,260 Nil
	Total		5,67,260
IV.	Appropriations Transfer to statutory reserve (25% of 5,67,260) Proposed dividend Balance carried over to balance sheet		 1,41,815 50,000 3,75,445
			5,67,260

Profit & Loss Account balance of Rs. 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

		Year ended 31.3.20X2 (Rs.)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	37,95,160
		37,95,160
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	1,90,000
II.	Profit on sale of investment	2,25,800
III.	Rent received	72,000
		4,87,800
	Schedule 15 – Interest Expended	

I.	Interests paid on deposits	22,95,360
		22,95,360
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000
II.	Rent, taxes paid	1,00,000
III.	Depreciation on assets	40,000
IV.	Director's fee, allowances and expenses	35,000
V.	Auditor's fee	12,000
VI.	Statutory (law) expenses	38,000
VII.	Postage and telegrams	65,340
VIII.	Preliminary expenses*	30,000
		5,70,340

Working Note:

	Rs.
Interest and discount received	38,00,160
Add: Rebate on bills discounted on 31.3. 20X1	15,000
Less: Rebate on bills discounted on 31.3. 20X2	(20,000)
	37,95,160

(8 marks)

ANSWER -6

ANSWER –A

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.

(5 marks)

ANSWER –B

Distinction between an ordinary partnership firm and an LLP

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

(5 marks)

ANSWER –C

In exercise of the power conferred under Section 43(a)(ii), the central government announced Rule 4 under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

The rules lay down the following conditions to be compulsorily complied with:

(a) The articles of association of the company authorizes the issue of shares with differential rights;

(b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;

(c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

(d) The company having consistent track record of distributable profits for the last three years;

(e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

(h) The company has not been penalized by Court or Tribunal during the las t three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

(5 marks)

ANSWER –D

In the books of KG Limited
Journal Entries

Date 20X1	Particulars	Dr. (Rs. In lakhs)	Cr. (Rs. In lakhs)
April 1	Bank A/c Dr. To investment A/c To profit on sale of investment A/c (Being investment sold on profit)	75	74 1
April 5*	Equity share capital A/c Dr. Securities premium A/c Dr. To equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	300 150	450
	Equity share buy back A/c Dr. To bank A/c (Being the payment on account of buy back of 30 lakh equity shares)	450	450
April 5	General reserve A/c Dr. Profit and loss A/c Dr. To capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve	265 35	300

	account as per the law)		
April 30	Capital redemption reserve A/c Dr. To bonus shares A/c (Being the utilization of capital redemption reserve to issue bonus shares)	225	225
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus shares for every four equity shares held)	225	225

*	Equity Share capital A/c	Dr	300	
	Premium on Buy back A/c	Dr	150	
	To Equity share buy back A/c			450

And therefore on 5th April:

Securities Premium A/c	Dr	150	
To Premium on Buy back A/c			150

Note: Alternatively, Securities premium can also be used to create CRR.

(5 marks)