SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- Advanced Accounts

Test Code – CIM 8651

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
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ANSWER 1(A)

(i)	**Loss for the year ended, 31st March, 2018**	**(Rs. in Lakhs)**
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less : Total contract price	(12,000)
	Total foreseeable loss to be recognised as expense	4,250

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.
Loss for the year ended, 31st March, 2018 amounting Rs. 4,250 will be recognized.

(ii)	**Contract work – in – progress as on 31.3.18**	**(Rs. in lakhs)**
	Contract work – in – Progress i.e. cost incurred to date are Rs. 7,500 lakhs :	
	Work certified	6,250
	Work not certified	1,250
		7,500

(iii) Proportion of total contract value recognized as revenue

Cost incurred till 31.3.18 is 46.15% (7,500/16,250 × 100) of total costs of construction.
Proportion of total contract value recognized as revenue :
46.15% of Rs. 12,000 lakhs = Rs. 5,538 lakhs

(iv) Amount due from / to customers at year end

(Contract costs + Recognized profits – Recognised Losses) – (Progress payments received + Progress payments to be received)
= (7,500 + Nil – 4,250) – (5,500 + 1,500) Rs. in lakhs
= [3,250 – 7,000] Rs. in lakhs
Amount due to customers = Rs. 3,750 lakhs

(5 MARKS)

ANSWER 1(B)

As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.
In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-à-vis production is determined reliably. A Ltd. should amortize the license fee of Rs. 200 lakhs as under:

Year	Net operating Cash in flow (Rs.)	Ratio	Amortize amount (Rs. in lakhs)
1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	3,200	0.11 (bal.)	22
	27,400	1.00	200

(5 MARKS)

ANSWER 1(C)

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 buyerRs.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 1(D)

Tax as per accounting profit 7,50,000 X 20% = Rs. 1,50,000

Tax as per Income-tax Profit 90,000 X 20% = Rs. 18,000

Tax as per MAT 4,37,500 X 7.50% = Rs. 32,812.50

Tax expense= Current Tax + Deferred Tax

Rs. 1,50,000 = Rs. 18,000+ Deferred tax

Therefore, **Deferred Tax liability** as on 31-03-2019

= Rs. 1,50,000 – Rs. 18,000 = Rs. 1,32,000

Amount of tax to be debited in Profit and Loss account for the year 31 -03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= Rs. 18,000 + Rs. 1,32,000 + Rs. 14,812.50 (32,812.50 – 18,000)

= Rs. 1,64,812.50

(5 MARKS)

ANSWER 2(A)

BT Limited
Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realized: Bank		75,700	By Liquidation expenses		45,000
Other assets:			By Preferential creditors		75,000
Land & building	24,50,000		By Liquidator Remuneration (W.N.1)		1,29,600
Plant & Machinery	9,00,000		By Debenture holders:		
Furniture	2,85,000		Debentures	10,00,000	
Patents	90,000		Interest accrued	1,20,000	
Stock	2,80,000		Interest 1-4-18 to 30-6-18	30,000	11,50,000
Trade receivables	3,15,000	43,20,000	By Unsecured creditors		7,36,250
			By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	1,20,000	11,20,000
			By Equity shareholders -		32,55,850
			Rs. 32.995 on 20,000 Shares		6,59,900
			Rs. 47.995 on 10,000 shares		4,79,950
		43,95,700			**43,95,700**

(6 MARKS)

Working Notes:

(1) Liquidator's remuneration 43,20,000 × 3/100 =Rs. 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2018 to 30-6-2018

10,00,000 x 12% x3/12 = Rs. 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000) Rs. 19,50,000

Less: Balance available after payment to unsecured and preference shares

(43,95,700 — 32,55,850) Rs. (11,39,850)

Rs.8,10,150

Loss to be born by 30,000 equity shares

Loss per share Rs.27.005

Hence, Refund for share on Rs. 60 paid share (60 - 27.005) Rs.32.995

Refund for share on Rs. 75 paid (75 - 27.005) Rs.47.995

Alternative working for Working No.3

Balance for equity shareholders = 11,39,850

(+) Notional call

On 20,000 shares @ Rs. 40 = Rs. 8,00,000

On 10,000 shares @ Rs. 25 = Rs. 2,50,000 = 10,50,000

Therefore total amount available for equity shareholders = 21,89,850

Therefore notional refund = $\frac{21,89,850}{30000\ shares}$ = Rs. 72.995 per share

Net call/refund:

Shares	Notional call	Notional Refund	Net refund
10000	25	72.995	47.995
20000	40	72.995	32.995

(4 MARKS)

ANSWER 2(B)

TOP Bank Limited

Profit and Loss Account for the year ended 31st March, 2017

		Schedule	**Year ended 31.03.2017**
I.	**Income:**		
	Interest earned	13	59,23,180
	Other income	14	7,28,000
	Total		66,51,180
II.	**Expenditure**		
	Interest expended	15	32,59,920
	Operating expenses	16	7,68,460
	Provisions and contingencies (9,60,000+2,10,000+9 00,000)		20,70,000
	Total		60,98,380
III.	**Profits/Losses**		
	Net profit for the year		5,52,800
	Profit brought forward		nil
			5,52,800
IV.	**Appropriations**		
	Transfer to statutory reserve (20%)		1,10,560
	Balance carried over to balance sheet		4,42,240
			5,52,800

(4 MARKS)

		Year ended 31.3. 2017
	Schedule 13 – Interest Earned	
I	Interest/discount on advances/bills (Refer W.N.)	59,23,180
		59,23,180
	Schedule 14 – Other Income	
I	Commission, exchange and brokerage	3,04,000
II	Profit on sale of investments	3,20,000
III	Rent received	1,04,000
		7,28,000
	Schedule 15 – Interest Expended	
I	Interests paid on deposits	32,59,920
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	3,20,000
II.	Rent and taxes	1,44,000
III.	Depreciation on bank's properties	48,000
IV.	Director's fee, allowances and expenses	48,000
V.	Auditors fee	28,000
VI.	Law (statutory) charges	44,000
VII.	Postage and telegrams	96,460
VIII.	Preliminary expenses	40,000
		7,68,460

(4 MARKS)

Working Note:1

	(Rs.)
Interest/discount	59,29,180
Add: Rebate on bills discounted on 31.3. 2016	19,000
Less: Rebate on bills discounted on 31.3. 2017	(25,000)
	59,23,180

Working Note : 2

Provisions & Contingencies

	Rs.
Provision for RDD : -	
(9,60,000+2,10,000)	11,70,000
Provision for Tax	9,00,000
	20,70,000

(2 MARKS)

ANSWER 3(A)

In the Books of Partnership Firm
Realization Account

	Rs.			Rs.
To Land & Building	5,00,000	By Sundry Creditors		3,00,000
To Furniture	2,00,000	By AB Ltd. Co. - Purchase consideration–(W.N.1)		13,95,000
To stock	5,00,000			
		By AB Ltd. Company – Sundry Debtors	3,30,000	
To Debtors	3,30,000	Less: Commission 5% on 3,30,000	16,500	3,13,500
To AB Ltd. Co. - Sundry Creditors (3,00,000 less 5,000)	2,95,000			
To AB Ltd. Co. – (Commission 3% on 2,95,000)	8,850			
To Profits transferred to:				
A's Capital A/c 87,325				
B's Capital A/c 87,325	1,74,650			
	20,08,500			20,08,500

Alternative presentation for Realization A/c

Realization Account

To Land & Building	5,00,000	By Sundry Creditors	3,00,000
To Furniture	2,00,000	By AB Ltd. co. (purchase consideration)	13,95,000
To stock	5,00,000	By AB Ltd. co. (Debtors)	3,30,000
To AB Ltd. co. (Creditors)	2,95,000		
To Debtors	3,30,000		
To AB Ltd. co. Commission (8,850 +16,500)	25,350		
To A's capital A/c 87,325 To B's capital A/c 87,325	1,74,650		
	20,25,000		20,25,000

(5 MARKS)

Capital Accounts of Partners

	A	B		A	B
	Rs.	Rs.		Rs.	Rs.
To Shares in AB Ltd.Co.– (W.N.2)	8,19,900	5,75,100	By Balance b/d	7,50,000	5,00,000
To Cash – Final Payment	17,425	12,225	By Realization a/c - Profit	87,325	87,325
	8,37,325	5,87,325		8,37,325	5,87,325

(3 MARKS)

Cash Account

	Rs.		Rs.
To Balance b/d	20,000	By A's Capital A/c Final payment	17,425
To AB Ltd. Co. (Amount realized from Debtors less amount paid to creditors) (W.N.3)	9,650	By B's Capital A/c Final Payment	12,225
	29,650		29,650

(2 MARKS)

Working Notes:

1. **Calculation of Purchase consideration:**

	Rs.
Land & Building	6,00,000
Furniture	1,70,000
Stock	4,25,000
Goodwill	2,00,000
	13,95,000

2. **Distribution of shares among partners**

   The shares received from the company have been distributed between the two partners A & B in the ratio of their final claims i.e., 8,37,325: 5,87,325*.

   No. of shares received from the company = 13,95,000/12= 1,16,250

A gets [(1,16,250 X 8,37,325)/14,24,650] = 68,325 shares valued at 68,325 x 12 = Rs. 8,19,900.

   B gets the remaining 47,925 shares, valued at Rs. 5,75,100 (47,925 x 12)

3. **Calculation of net amount received from AB Ltd on account of amount realized from debtors less amount paid to creditors.**

		Rs.
	Amount realized from Debtors	3,30,000
Less:	Commission for realization from debtors (5% on 3,30,000)	16,500
		3,13,500
Less:	Amount paid to creditors	2,95,000
		18,500
Less:	Commission for cash paid to creditors (3% on 2,95,000)	8,850
	Net amount received	9,650

***Note:** In the above situation, shares received from AB Ltd. Company have been distributed between two partners A and B in the ratio of their final claims. Alternatively, shares received from AB Ltd. can be distributed among the partners in their profit sharing ratio i.e. Rs. 13,95,000 x ½ = Rs. 6,97,500 each. In that case, firm will pay cash amounting Rs. 1,39,825 to A and will receive cash Rs. 1,10,175 from B. Partner's capital accounts and cash account will, accordingly get changed.

(5 MARKS)

ANSWER 3(B)

(i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in2016 – 17, the company revised the estimates based on the changed circumstances and wants to create 3% 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, 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 policy, will not be treated as change in an accounting policy.

(iii) Change in useful life of furniture from 5 years to 3 years is a change in 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 not a change in accounting policy.

(v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

(5 MARKS)

ANSWER 4(A)

Consolidated Balance Sheet of H Ltd.

and its subsidiary S Ltd. as on 31st March, 2017

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

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

(6 MARKS)

Notes to Accounts

			(Rs. in Lacs)	(Rs. in Lacs)
1.	**Share Capital**			
	Authorised			15,000
	Issued and Subscribed:			
	Equity shares of Rs. 10 each, fully paid up			12,000
2.	**Reserves and surplus**			
	Capital Reserve (Note 5)		1,320	
	General Reserve (Rs. 2,784 + 108)		2,892	
	Profit and Loss Account:			
	H Ltd.	Rs. 2,715		
	Less: Dividend wrongly credited Rs. 360			
	And Unrealized Profit Rs. 20	(Rs. 380)		
		Rs. 2,335		
	Add: Share in S Ltd.'s Revenue profits	Rs. 612	2,947	7,159
3.	**Trade payables**			
	H Ltd.		1,461	
	S Ltd.		854	2,315
4.	**Short term provisions**			
	Provision for Taxation			
	H Ltd.		855	
	S Ltd.		394	1,249
5.	**Other current liabilities**			
	Bills Payable			
	H Ltd.		Rs. 372	
	S Ltd.		Rs. 160	
			Rs. 532	
	Less: Mutual owing		Rs. (45)	487
	Dividend payable			

	H Ltd.			1,200
				1,687
6.	**Tangible assets**			
	Land and Buildings			
	H Ltd.		2,718	
	Plant and Machinery			
	H Ltd.	Rs. 4,905		
	S Ltd.	Rs. 4,900	9,805	
	Furniture and Fittings			
	H Ltd.	Rs. 1,845		
	S Ltd.	Rs. 586	2,431	14,954
7.	**Inventories**			
	Stock			
	H Ltd.		3,949	
	S Ltd.		1,956	
			5,905	
	Less: Unrealized profit		(20)	5,885
8.	**Trade receivables**			
	H Ltd.	Rs. 2,600		
	S Ltd.	Rs. 1,363		3,963
9.	**Other current assets**			
	Bills Receivable			
	H Ltd.	Rs. 360		
	S Ltd.	Rs. 199		
		Rs. 559		
	Less: Mutual Owing	Rs. (45)		514
10.	**Cash and cash equivalents**			
	Cash and Bank Balances			
	H Ltd.		1,490	
	S Ltd.		204	1,694
11.	**Short term loans and advances**			
	Sundry Advances			
	H Ltd.			520

(4 MARKS)

Working Notes:

Share holding pattern of S Ltd.

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

1. S Ltd.'s General Reserve Account

	Rs. in lakhs		**Rs. in lakhs**
To Bonus to Equity Shareholders(WN-8) To Balance c/d	1,800 1,380	By Balance b/d By Profit and Loss A/c (Balancing figure)	3,000 180
	3,180		**3,180**

2. S Ltd.'s Profit and Loss Account

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

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

3. Distribution of Revenue profits

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

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

4. Calculation of Capital Profits

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

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

Minority interest = Rs. 1,800 – Rs. 1,080 = Rs. 720 lakhs

5. Calculation of capital reserve

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

6. Calculation of Minority Interest

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

7. **Unrealized profit in respect of inventory**

Rs.100 lakhs x $\frac{25}{125}$ = Rs.20 lakhs.

8. **Computation of bonus to equity shareholders**

	Rs. In lakhs
Shares as on 31 March 2017 including bonus share issued on 1 January 2017	4,800
Or we can say these are $1 + \frac{3}{5} + \frac{8}{5}$	
I.e. Shares before bonus issue should have been $\frac{4,800}{8/5}$ =	3,000
According, bonus issue would be (4,800 – 3,000)	1,800

(5 MARKS)

ANSWER 4(B)

Journal Entries in the books of JKS Ltd.

			Rs.	Rs.
15.03.2018 to 31.03.18	Bank A/c. (3,600 × Rs. 30) Employee compensation expense A/c. (3,600 × Rs.20) To Equity share capital A/c. (3600 × Rs. 10) To Securities premium A/c. (3600 × Rs. 40) (Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)	Dr. Dr.	1,08,000 72,000	 36,000 1,44,000
31.3.18	Profit and Loss A/c. To Employee compensation expenses A/c. (Being transfer of employee compensation expenses transfer to Profit and Loss Account)	Dr.	72,000	 72,000

Working Notes :

1. No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st January 2018 ;
2. Market Price = Rs. 50 per share and stock option price = Rs. 30, Hence, the difference Rs. 50 – Rs. 30 = Rs. 20 per share is equivalent to employee cost or employee compensation expense and will be charged to P & L Account as such for the number of options exercised i.e. 3,600 shares.

(5 MARKS)

ANSWER 5(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 (21,000 x Rs. 10)			2,10,000
		To Preference Share Capital A/c (20,000 x Rs.10)			2,00,000
		(Being post reduction, both classes of shares reconsolidated into Rs.10 each)			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account*	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	

		To Debenture holders Account (Being amount due to debenture holders)			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 To Raw materials & Packing materials To Trade receivables (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 To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)	Dr.	1,28,400	 1,28,400

(7 MARKS)

*** Note: Alternate entry of 7th and 8th**

7.	Freehold Land A/c	Dr.	90,000	
	To Capital Reduction A/c			90,000
8.	9% Debentures A/c	Dr.	1,20,000	
	Accrued interest on debentures A/c	Dr.	5,400	
	Cash Account A/c	Dr.	84,600	
	To Freehold Land A/c			2,10,000

(ii) **Capital Reduction Account**

Particulars		Rs.	Particulars		Rs.
To	Equity share capital	32,000	By	Preference share capital	2,00,000
To	Cash (contingent liability settled)	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
	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

(4 MARKS)

(iii) **Cash Account**

Particulars		Rs.	Particulars		Rs.
To	Investment	64,000	By	Capital reduction (Contingent liability)	54,000
	9% Debenture holders (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 - From proceeds of equity share capital (2,23,100– 97,100) 1,26,000	2,23,100
To	Equity share capital 12,600 shares @ Rs.10 each	1,26,000			
		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

(4 MARKS)

ANSWER 5(B)

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(A)

In the books of Dee Limited
Journal Entries

	Particulars		Dr.	Cr. (Rs. in '000)
(i)	Bank Account	Dr.	22,00	
	Profit and Loss Account	Dr.	8,00	
	To Investment Account			30,00
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share capital account	Dr.	5,00	
	Premium payable on buy back Account	Dr.	20,00	
	To Equity shareholders Account			25,00
	(Being the amount due on buy back)			
(iii)	Securities premium Account	Dr.	20,00	
	To Premium payable on buy back Account			20,00
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue reserve Account	Dr.	3,00	
	To Capital Redemption Reserve Account			3,00
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account)			
(v)	Equity shareholders Account	Dr.	25,00	
	To Bank Account			25,00
	(Being the payment made on buy back)			

(5 MARKS)

Balance Sheet of Dee Limited as on 1st April, 20X1
(After buy back of shares)

	Particulars	Note No	(Rs. In '000)
I.	**Equity and Liabilities**		
(1)	**Shareholder's Funds**		
	(a) Share Capital	1	22,00
	(b) Reserves and Surplus	2	69,00
(2)	**Current Liabilities**		**14,00**
	Total		**10,500**
II.	**Assets**		
(1)	**Non-current assets**		
	(a) Fixed assets		93,00
(2)	**Current assets (15,00-3,00)**		**12,00**
	Total		**10,500**

(2 MARKS)

Notes to Accounts

				Rs. in 000
1	**Share Capital**			
	Authorised capital:			30,00
	Issued and subscribed capital:			
	2,00,000 Equity shares of Rs. 10 each fully paid up		20,00	
	2,000 10% Preference shares of Rs. 100 each fully paid up		2,00	22,00
2	**Reserves and Surplus**			
	Capital reserve		10,00	
	Capital redemption reserve		3,00	
	Securities Premium	22,00		
	Less: Premium payable on buy back of shares	20,00	2,00	
	Revenue reserve	30,00		
	Less: Transfer to Capital redemption reserve	3,00	27,00	
	Profit and loss A/c	35,00		
	Less: Loss on investment	8,00	27,00	69,00

(3 MARKS)

ANSWER 6(B)

(i) Journal Entries in the Books of VT Ltd.

		Dr. Rs.	Cr. Rs.
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of Rs.5,00,000)	Dr.	5,75,000	
Inventory (95% of Rs. 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(Rs. 80,000 –Rs.60,000 dividend paid)			
To Provision for Bad Debts (5% of Rs. 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000

To Capital Reserve (Balancing figure) (Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			1,61,000
Liquidator of MG Ltd. To Equity Share Capital To 10% Preference Share Capital (Discharge of consideration for MG Ltd.'s business)	Dr.	9,80,000	 8,00,000 1,80,000
12% Debentures in MG Ltd. (Rs. 3,00,000 × 108%) Discount on Issue of Debentures To 12% Debentures (Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)	Dr. Dr.	3,24,000 36,000	 3,60,000
Sundry Creditors To Sundry Debtors (Cancellation of mutual owing)	Dr.	20,000	 20,000
Goodwill To Bank (Being liquidation expenses reimbursed to MG Ltd.)	Dr.	60,000	 60,000
Capital Reserve/P&L A/c To Goodwill (Being goodwill set off)	Dr.	60,000	 60,000

(8 MARKS)

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 X 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of Rs.10 each i.e.	Rs.8,00,000 (i)
For 10% preference shares, to be paid at 10% discount	
Rs.2,00,000 x 90/100	Rs. 1,80,000 (ii)
Consideration amount [(i) + (ii)]	Rs. 9,80,000

(2 MARKS)