J.K. SHAH TEST SERIES
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# SUGGESTED SOLUTION

## INTERMEDIATE

### SUBJECT- ADVANCED ACCOUNTS

## Test Code - PIN 5022

**BRANCH - () (Date : //)**

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## Answer 1:

**(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)**

**(B)**

As per AS 18 'Related Party Disclosures', Enterprises over which the key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise. In the given case, Arohi Ltd. and Anya Ltd. are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Arohi Ltd. is wrong.

**(5 MARKS)**

**(C)**

(1) 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.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

**(5 MARKS)**

**(D)** As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss, whichever is greater in absolute amount; or

(iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of Rs. 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

**(5 MARKS)**

## Answer 2:
## (A)

**Statement determining the maximum number of sharesto be bought back**

***Number of shares (in crores)***

| *Particulars* | **When loan fund is** | |
|---|---|---|
| | **Rs. 3,200 crores** | **Rs. 6,000 crores** |
| Shares Outstanding Test (W.N.1) | 30 | 30 |
| Resources Test (W.N.2) | 24 | 24 |
| Debt Equity Ratio Test (W.N.3) | 32 | Nil |
| Maximum number of shares that can be bought back [least of the above] | 24 | Nil |

**(2 MARKS)**

**Journal Entries for the Buy Back**

**(applicable only when loan fund is Rs.3,200 crores)**

| | | | **Rs. in crores** | |
|---|---|---|---|---|
| | | | **Debit** | **Credit** |
| (a) | Equity share buyback account | Dr. | 720 | |
| | To Bank account | | | 720 |
| | (Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30per share) | | | |
| (b) | Equity share capital account | Dr. | 240 | |
| | Premium Payable on buyback account | Dr. | 480 | |
| | To Equity share buyback account | | | 720 |
| | (Being cancellation of shares bought back) | | | |
| | Securities Premium account | Dr. | 400 | |
| | General Reserve / Profit & Loss A/c | Dr. | 80 | |
| | To Premium Payable on buyback account | | | 480 |
| | (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit &Loss A/c) | | | |
| (c) | General Reserve / Profit & Loss A/c | Dr. | 240 | |
| | To Capital redemption reserve account | | | 240 |
| | (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves) | | | |

**(3*1 = 3 MARKS)**

**Working Notes:** **(5 MARKS)**

1. **Shares Outstanding Test**

| **Particulars** | **(Shares in crores)** |
|---|---|
| Number of shares outstanding | 120 |
| 25% of the shares outstanding | 30 |

2. **Resources Test**

| **Particulars** | |
|---|---|
| Paid up capital (Rs. in crores) | 1,200 |
| Free reserves (Rs. in crores) (1,080 + 400 +200) | 1,680 |
| Shareholders' funds (Rs. in crores) | 2,880 |
| 25% of Shareholders fund (Rs. In crores) | Rs. 720 crores |
| Buy back price per share | Rs. 30 |
| Number of shares that can be bought back | 24 crores shares |

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back**

| | **Particulars** | **When loan fund is** | |
|---|---|---|---|
| | | Rs. 3,200 crores | Rs. 6,000 crores |
| (a) | Loan funds (Rs.) | 3,200 | 6,000 |
| (b) | Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2) | 1,600 | 3,000 |
| (c) | Present equity shareholders fund (Rs.) | 2,880 | 2,880 |
| (d) | Future equity shareholders fund (Rs.) (see W.N.4) | 2,560 (2,880-320) | N.A. |
| (e) | Maximum permitted buy back of Equity (Rs.) [(d) – (b)] | 960 | Nil |
| (f) | Maximum number of shares that can be bought back @ Rs. 30 per share | 32 crore shares | Nil |
| | As per the provisions of the Companies Act, 2013, company | Qualifies | Does not Qualify |

(B) **Journal Entries**

| | Rs. | Rs. |
|---|---|---|
| Bank A/c 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 creditors 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 A A/c | | 7,00,000 |
| (Being cancellation of 8% and 12% debentures of A) | | |
| A A/c Dr. | 7,00,000 | |
| To 15% Debentures A/c | | 5,00,000 |
| 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) | | |
| Bank A/c Dr. | 1,00,000 | |
| To 15% Debentures A/c | | 1,00,000 |
| (Being new debentures subscribed by A) | | |
| 8% Debentures A/c Dr. | 1,00,000 | |
| 12% Debentures A/c Dr. | 2,00,000 | |
| To B A/c | | 3,00,000 |

| | | |
|---|---|---|
| (Being cancellation of 8% and 12% debentures of B) | | |
| B 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 Profit and Loss A/c | | 29,82,000 |
| (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance 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) | | |

**(10 MARKS)**

## Answer 3:

## (A)

**1. Calculation of number of shares issued to P Ltd. and Q Ltd.:**

| | |
|---|---|
| Amount of Share Capital as per balance sheet | *Rs.* |
| P Ltd. | 6,00,000 |
| Q Ltd. | 8,40,000 |
| | 14,40,000 |

**Share of P Ltd.** = Rs.14,40,000 x [21,60,000/ (21,60,000 +14,40,000)]
= Rs.8,64,000 or 86,400shares
Securities premium = Rs.21,60,000 – Rs.8,64,000 = Rs.12,96,000
Premium per share = Rs.12,96,000 / Rs.86,400 = Rs.15

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

**Share of Q Ltd.** = Rs.14,40,000 x [14,40,000/ (21,60,000 +14,40,000)]
= Rs.5,76,000 or 57,600 shares
Securities premium = Rs.14,40,000 – Rs.5,76,000 = Rs.8,64,000
Premium per share = Rs.8,64,000 / Rs.57,600 = Rs.15

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

**(3 MARKS)**

**(ii) Balance Sheet of PQ Ltd. on31st March, 2017 after amalgamation**

| | | Particulars | Notes | Rs. |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| 1 | | Shareholders' funds | | |
| | a | Share capital | 1 | 21,60,000 |
| | b | Reserves and Surplus | 2 | 32,40,000 |
| 2 | | Current liabilities | | |
| | a | Trade payables (2,40,000 + 5,40,000) | | 7,80,000 |
| | | **Total** | | **61,80,000** |
| | | **Assets** | | |
| 1 | | Non-current assets | | |
| | a | Fixed assets | | |
| | | Tangible assets (7,20,000 + 10,80,000) | | 18,00,000 |
| 2 | | | | |
| | | Intangible assets (goodwill) | 4 | 5,40,000 |
| | | Current assets | | |
| | a | Inventories (3,60,000 + 6,60,000) | | 10,20,000 |
| | b | Trade receivables (4,80,000 +7,80,000) | | 12,60,000 |
| | c | Cash and cash equivalents | 3 | 15,60,000 |
| | | **Total** | | **61,80,000** |

**Notes to accounts**

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

**(5 MARKS)**

**Working Notes:** **(4 MARKS)**

1. **Calculation of goodwill of PLtd.**

| **Particulars** | **Amount Rs.** | **Weight** | **Weighted amount Rs.** |
|---|---|---|---|
| 2014-15 | 3,00,000 | 1 | 3,00,000 |
| 2015-16 | 5,25,000 | 2 | 10,50,000 |
| 2016-17 | 6,30,000 | 3 | 18,90,000 |
| Total (a + b + c) | 14,55,000 | 6 | 32,40,000 |
| weighted Average = [Total weighted amount/Total of weight] | | | |
| [Rs. 32,40,000/6] | | | |
| Goodwill | | | 5,40,000 |

2. **Calculation of Net assets**

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

3. **New authorized capital**

= Rs. 14,40,000 + Rs. 12,00 000 = Rs. 26,40,000

4. **Cash and Cash equivalents**

| | Rs. |
|---|---|
| P Ltd. Balance | 3,00,000 |
| Cash received from Fresh issue (72,000 X Rs. 25) | 18,00,000 |
| | 21,00,000 |
| Less: Bank Overdraft | 5,40,000 |
| | 15,60,000* |

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

**(B)** **TOP Bank Limited**

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

| | | *Schedule* | *Year ended 31.03.2017* |
|---|---|---|---|
| | | | ***(Rs.in '000s)*** |
| **I.** | **Income:** | | |
| | Interest earned | 13 | 5923.18 |
| | Other income | 14 | 728.00 |
| | Total | | 6,651.18 |
| **II.** | **Expenditure** | | |
| | Interest expended | 15 | 3259.92 |
| | Operating expenses | 16 | 768.46 |
| | Provisions and contingencies (960+210+900) | | 2,070.00 |
| | Total | | 6,098.38 |
| **IIII.** | **Profits/Losses** | | |
| | Net profit for the year | | 552.80 |
| | Profit brought forward | | nil |
| | | | 552.80 |
| **IV.** | **Appropriations** | | |
| | Transfer to statutory reserve (25%) | | 138.20 |
| | Balance carried over to balance sheet | | 414.60 |
| | | | 552.80 |

**(4 MARKS)**

| | | Year ended 31.3.2017 (Rs.in'000s) |
|---|---|---|
| | **Schedule 13 – Interest Earned** | |
| I. | Interest/discount on advances/bills (Refer W.N.) | 5923.18 |
| | | 5923.18 |
| | **Schedule 14 – Other Income** | |
| I. | Commission, exchange and brokerage | 304 |
| II. | Profit on sale of investments | 320 |
| III. | Rent received | 104 |
| | | 728 |
| | **Schedule 15 – Interest Expended** | |
| I. | Interests paid on deposits | 3259.92 |
| | Schedule 16 – Operating Expenses | |
| I. | Payment to and provisions for employees | 320 |
| II. | Rent and taxes | 144 |
| III. | Depreciation on bank's properties | 48 |
| IV. | Director's fee, allowances and expenses | 48 |
| V. | Auditors' fee | 28 |
| VI. | Law (statutory) charges | 44 |
| VII. | Postage and telegrams | 96.46 |
| VIII. | Preliminary expenses | 40 |
| | | 768.46 |

**Working Note:**

| | (Rs. in '000s) |
|---|---|
| Interest/discount | 5,929.18 |
| *Add:* Rebate on bills discounted on 31.3. 2016 | 19.00 |
| *Less:* Rebate on bills discounted on 31.3. 2017 | ( 25.00) |
| | 5,923.18 |

**(4 MARKS)**

## Answer 4:

**M/s Pratham, Kaushal and Rohan**

**Profit and Loss Account for the year ending on 31st March, 2020**

| | Rs. | | Rs. |
|---|---|---|---|
| To Depreciation on Machinery | 6,000 | By Trading Profit | 50,000 |
| To Depreciation on furniture | 500 | By Interest on Investment | 5,000 |
| To Interest on Kaushal's loan | 900 | | |
| To Net Profit to : | | | |
| Pratham's Capital A/c | 23,800 | | |
| Kaushal's Capital A/c | 11,900 | | |
| Rohan's Capital A/c | 11,900 | | |

| | 55,000 | | 55,000 |
|---|---|---|---|

**(3 MARKS)**

**Balance Sheet of the Karma Pvt. Ltd. as on 1st April, 2020**

| | *Notes No.* | Rs. |
|---|---|---|
| **I Equity and Liabilities** | | |
| **Shareholders' funds** | | |
| Share capital | | 1,41,600 |
| **Current liabilities** | | |
| Short term borrowings | 1 | 15,900 |
| Trade payables | | 20,000 |
| Total | | 1,77,500 |
| **II Assets** | | |
| **Non-current assets** | | |
| **Property, plant & Equipment** | 2 | 63,500 |
| Non-current investments | | 50,000 |
| **Current assets** | | |
| Inventories | | 15,000 |
| Trade receivables | | 30,000 |
| Cash and cash equivalents | | 19,000 |
| Total | | 1,77,500 |

**Notes to Accounts**

| | | *Rs.* |
|---|---|---|
| **1. Short term borrowings** | | |
| Loan from Kaushal | | 15,900 |
| **2. PPE** | | |
| Machinery | 54,000 | |
| Furniture | 9,500 | 63,500 |

**(3 MARKS)**

**Working Notes:** **(7*2 = 14 MARKS)**

**1. Calculation of goodwill**

| | *2014-15* *Rs.* | *2015-16* *Rs.* | *2016-17* *Rs.* | *2017-18* *Rs.* | *2018-19* *Rs.* |
|---|---|---|---|---|---|
| Profits/(Loss) | 25,000 | 12,500 | (2,500) | 35,000 | 30,000 |
| Adjustment for extraneous profit of 2014-15 and abnormal loss of 2016-17 | (40,000) | - | 20,000 | — | — |

| | | | | | |
|---|---|---|---|---|---|
| | (15,000) | 12,500 | 17,500 | 35,000 | 30,000 |
| *Add:* Salary of Pratham (750 x12) | 9,000 | 9,000 | 9,000 | 9,000 | 9,000 |
| | (6,000) | 21,500 | 26,500 | 44,000 | 39,000 |
| *Less:* Interest on non-trading investment | (5,000) | (5,000) | (5,000) | (5,000) | (5,000) |
| | (11,000) | 16,500 | 21,500 | 39,000 | 34,000 |
| Total Profit from 2015-16 to 2018-19 | | | | | 1,11,000 |
| *Less*: Loss for 2014-15 | | | | | (11,000) |
| | | | | | 1,00,000 |
| Average Profit | | | | | 20,000 |
| Goodwill equal to 3 years' purchase | | | | | 60,000 |
| Contribution from Rohan for ¼ share | | | | | 15,000 |

**2. Calculation of sacrificing ratio of Partners Pratham and Kaushal on admission of Rohan**

| | Old share | New share | Sacrificing share | Gaining share |
|---|---|---|---|---|
| Pratham | 3/5 | 1/2 | $\frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$ | |
| Kaushal | 2/5 | 1/4 | $\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$ | |
| Rohan | | 1/4 | | 1/4 |

**3. Goodwill adjustment entry through Partners' capital accounts (in their sacrificing ratio of 2:3)**

| | *Rs.* | *Rs.* |
|---|---|---|
| Rohan' s capital A/c Dr. | 15,000 | |
| To Pratham's capital A/c | | 6,000 |
| To Kaushal' s capital A/c | | 9,000 |
| (Rohan's share in goodwill adjusted through Pratham and Kaushal) | | |

**4.** **Partners' Capital Accounts**

| | *Pratham* Rs. | *Kaushal* Rs. | *Rohan* Rs. | | *Pratham* Rs. | *Kaushal* Rs. | *Rohan* Rs. |
|---|---|---|---|---|---|---|---|
| To Drawings (1,000 x 12) | 12,000 | 12,000 | 12,000 | By Balance b/d | 50,000 | 30,000 | — |
| To Pratham | | | 6,000 | By General Reserve | 12,000 | 8,000 | — |
| To Kaushal | | | 9,000 | By *Rohan* | 6,000 | 9,000 | — |
| To Balance c/d | 79,800 | 46,900 | 14,900 | By Bank (15,000 + 15,000) | — | — | 30,000 |
| | | | | By Profit & Loss A/c | 23,800 | 11,900 | 11,900 |
| | 91,800 | 58,900 | 41,900 | | 91,800 | 58,900 | 41,900 |

**5.** **Balance Sheet of the firm as on 31st March, 2020**

| *Liabilities* | *Rs.* | *Rs.* | *Assets* | *Rs.* | *Rs.* |
|---|---|---|---|---|---|
| Pratham's Capital | 79,800 | | Machinery | 60,000 | |
| Kaushal's Capital | 46,900 | | *Less*: Depreciation | (6,000) | 54,000 |
| Rohan's Capital | 14,900 | 1,41,600 | Furniture | 10,000 | |
| | | | *Less:* Depreciation | (500) | 9,500 |
| Kaushal's Loan | 15,000 | | Investments | | 50,000 |
| *Add:* Interest due | 900 | 15,900 | Stock-in-trade | | 15,000 |
| Creditors | | 20,000 | Debtors | | 30,000 |
| | | | Cash (W.N.6) | | 19,000 |
| | | 1,77,500 | | | 1,77,500 |

**6.** **Cash balance as on 31.3.2020**

| | *Rs.* | *Rs.* |
|---|---|---|
| Cash trading profit | | 50,000 |
| *Add:* Investment Interest | | 5,000 |
| *Add:* Decrease in Stock Balance | | 5,000 |
| | | 60,000 |
| *Less:* Increase in Debtors | 9,000 | |
| *Less:* Decrease in Creditors | 20,000 | (29,000) |
| | | 31,000 |
| *Add:* Opening cash balance | 5,000 | |
| *Add:* Cash brought in by *Rohan* | 30,000 | 35,000 |

| | | |
|---|---|---|
| | | 66,000 |
| *Less:* Drawings (12,000 +12,000 +12,000) | 36,000 | |
| *Less:* Additions to Machine (60,000 - 54,000) | 6,000 | |
| Furniture (10,000 - 5,000) | 5,000 | (47,000) |
| Closing cash balance | | 19,000 |

**7. Distribution of shares – Conversion into Company**

| | | *Rs.* |
|---|---|---|
| Capital: | Pratham | 79,800 |
| | Kaushal | 46,900 |
| | Rohan | 14,900 |
| Share Capital | | 1,41,600 |
| Distribution of shares: | Pratham (1/2) | 70,800 |
| | Kaushal (1/4) | 35,400 |
| | Rohan (1/4) | 35,400 |

Pratham and Kaushal should withdraw capital of Rs. 9,000 (Rs. 79,800 – Rs. 70,800) and Rs.11,500 (Rs. 46,900 – Rs. 35,400) respectively and Rohan should subscribe shares of Rs. 20,500 (Rs.35,400 – Rs.14,900).

## Answer 5:

## (A)

**Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended on 31st March,2017**

| **Particulars** | **Note No.** | **Rs. in Lacs** |
|---|---|---|
| I. Revenue from operations | 1 | 11,730 |
| II. Total revenue | | 11,730 |
| III. Expenses | | |
| Cost of Material purchased/Consumed | 3 | 2,360 |
| Changes of Inventories of finished goods | 2 | (2,392) |
| Employee benefit expense | 4 | 1,900 |
| Finance cost | 6 | 300 |
| Depreciation and amortization expense | 7 | 300 |
| Other expenses | 5 | 1,070 |
| Total expenses | | 3,538 |
| IV. Profit before Tax(II-III) | | 8,192 |
| V. Tax Expenses | 8 | 2,800 |
| VI. Profit After Tax | | 5,392 |
| Profit transferred to Consolidated Balance Sheet | | |
| Profit After Tax | | 5,392 |
| Dividend paid | | |

| | | |
|---|---|---|
| Hello Ltd. | 2,400 | |
| Sun Ltd. | 300 | |
| | 2,700 | |
| *Less*: Share of Hello Ltd. in dividend of Sun Ltd. | | |
| 80% of Rs. 300 lacs | (240) | (2,460) |
| Profit to be transferred to consolidated balance sheet | | 2,932 |

**(6 MARKS)**

**Notes to Accounts**

| | | Rs. in Lacs | Rs. in Lacs |
|---|---|---|---|
| 1. | Revenue from Operations | | |
| | Sales and other income | | |
| | Hello Ltd. | 10,000 | |
| | Sun Ltd. | 2,000 | |
| | | 12,000 | |
| | Less: Inter-company Sales | (240) | |
| | Consultancy fees received by Hello Ltd. from Sun Ltd. | (10) | |
| | Commission received by Sun Ltd. from Hello Ltd. | (20) | 11,730 |
| 2. | Increase in Inventory | | |
| | Hello Ltd. | 2,000 | |
| | Sun Ltd. | 400 | |
| | | 2,400 | |
| | Less: Unrealized profits Rs. 48 lacs × $\frac{20}{120}$ | (8) | 2,392 |
| | | | 14,122 |
| 3. | Cost of Material purchased/consumed | | |
| | Hello Ltd. | 1,600 | |
| | Sun Ltd. | 400 | |
| | | 2,000 | |
| | Less: Purchases by Sun Ltd. from Hello Ltd. | (240) | 1,760 |
| | Direct Expenses | | |
| | Hello Ltd. | 400 | |
| | Sun Ltd. | 200 | 600 |
| | | | 2,360 |
| 4. | Employee benefits and expenses Wages and Salaries: | | |
| | Hello Ltd. | 1,600 | |
| | Sun Ltd. | 300 | 1,900 |
| 5. | Other Expenses Administrative Expenses | | |
| | Hello Ltd. | 400 | |
| | Sun Ltd. | 200 | |
| | | 600 | |

| | | | |
|---|---|---|---|
| | Less: Consultancy fees received by Hello Ltd. from Sun Ltd. | (10) | 590 |
| | Selling and Distribution Expenses: | | |
| | Hello Ltd. | 400 | |
| | Sun Ltd. | 100 | |
| | | 500 | |
| | Less: Commission received from Sun Ltd. from Hello | (20) | 480 |
| 6. | Finance Cost | | |
| | Interest: | | |
| | Hello Ltd. | 200 | |
| | Sun Ltd. | 100 | 300 |
| 7. | Depreciation and Amortization Depreciation: | | |
| | Hello Ltd. | 200 | |
| | Sun Ltd. | 100 | 300 |
| | Provision for tax | | |
| | Hello Ltd. | 2,400 | |
| | Sun Ltd. | 400 | 2,800 |

**(8 MARKS)**

**Note:** Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

**(1 MARK)**

## (B) Calculation of Total Remuneration payable to Liquidator

| | | *Amount in Rs.* |
|---|---|---|
| 2% on Assets realised | 37,50,000 x 2% | 75,000 |
| 3% on payment made to Preferential creditors | 1,12,500 x 3% | 3,375 |
| 3% on payment made to Unsecured creditors (Refer W.N) | | 58,882 |
| Total Remuneration payable to Liquidator | | 1,37,257 |

**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, preferential creditors & liquidator's remuneration

= Rs. 37,50,000 – Rs. 37,500 – Rs. 15,00,000 – Rs. 1,12,500 – Rs. 75,000 – Rs. 3,375

= Rs. 20,21,625.

Liquidator's remuneration

= 3/103 x Rs. 20,21,625= Rs. 58,882

* **Rs. 7,75,000 less Rs.4,25,000**

**(5 MARKS)**

## Answer 6:

### (A) Income Recognition in case of NBFC

(1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

(3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became nonperforming and remaining unrealized, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals* taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

**'Net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account* debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956)/ 2013.

**(5 MARKS)**

**(B)**

**In the books of Company**

**Journal Entries**

| **Date** | **Particulars** | | **Dr. Rs.** | **Cr. Rs.** |
|---|---|---|---|---|
| 1-3-X2 | Bank A/c | Dr. | 2,40,000 | |
| | Employees compensation expenses A/c | Dr. | 4,32,000 | |
| | To Equity Share Capital A/c | | | 48,000 |
| | To Securities Premium A/c | | | 6,24,000 |
| | (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50each) | | | |

| | | | |
|---|---|---|---|
| 31-3- | Profit and Loss account Dr.<br>To Employees compensation expenses A/c (Being transfer of employees compensation expenses) | 4,32,000 | 4,32,000 |

**(2*1 = 2 MARKS)**

**Working Note:** **(3*1 = 3 MARKS)**

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs.140 –Rs.50=Rs.90 per share= Rs.90x4,800=Rs.4,32,000 in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x4,800 = Rs. 6, 24,000 in total.

**(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 last 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)**

**(D)**

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

*(Amount in ` lakhs)*

| | Up to the reporting date | Recognized in previous years | Recognized in current year |
|---|---|---|---|
| **Year 1** | | | |
| Revenue (9,000 x 26%) | 2,340 | - | 2,340 |
| Expenses (8,050 x 26%) | 2,093 | - | 2,093 |
| Profit | 247 | - | 247 |
| **Year 2** | | | |
| Revenue (9,200 x 74%) | 6,808 | 2,340 | 4,468 |
| Expenses (8,200 x 74%) | 6,068 | 2,093 | 3,975 |
| Profit | 740 | 247 | 493 |
| **Year 3** | | | |
| Revenue (9,200 x 100%) | 9,200 | 6,808 | 2,392 |
| Expenses (8,200 x 100%) | 8,200 | 6,068 | 2,132 |
| Profit | 1,000 | 740 | 260 |

**Working Note:**

| | *Year 1* | *Year 2* | *Year 3* |
|---|---|---|---|
| Revenue after considering variations | 9,000 | 9,200 | 9,200 |
| *Less:* Estimated profit for whole contract | 950 | 1,000 | 1,000 |
| Estimated total cost of the contract (A) | 8,050 | 8,200 | 8,200 |
| Actual cost incurred upto the reporting date (B) | 2,093 | 6,068 (6,168-100) | 8,200 (8,100+100) |
| Degree of completion (B/A) | 26% | 74% | 100% |

**(5 MARKS)**