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**INTERMEDIATE**

**SUBJECT- ADVANCED ACCOUNTS**

**Test Code – PIN 5032**

**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:**

**ANSWER-A**

**(5 MARKS)**

As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

**ANSWER-B**

**(5 MARKS)**

As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

**Value of machinery**

In the given case, fair value of the machinery is Rs. 10, 00,000 and the net present value of minimum lease payments is Rs. 10, 07,020 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value of Rs.10,00,000.

**Calculation of finance charges for each year**

Year	Finance charge (Rs.)	Payment (Rs.)	Reduction in outstanding liability (Rs.)	Outstanding liability (Rs.)
1 <sup>st</sup> year beginning	-	-	-	10,00,000
End of 1 <sup>st</sup> year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2 <sup>nd</sup> year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3 <sup>rd</sup> year	94,336	3,50,000	2,55,664	3,33,936
End of 4 <sup>th</sup> year	53,430	3,50,000	2,96,570	37,366*

**Working Note:****Present value of minimum lease payments**

Annual lease rental x PV factor Rs. 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	Rs. 9,79 ,405
Present value of guaranteed residual value Rs. 50,000 x (0.5523)	Rs. 27,615
	Rs. 10,07,020

**ANSWER-C****(5 MARKS)**

Fair value of shares immediately prior to exercise of rights + Total amount received from exercise

Number of shares outstanding prior to exercise + Number of shares issued in the exercise

102 x 2,50,000 Shares + ₹ 98 x 1,00,000 shares  
3,50,000 shares

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

Computation of adjustment factor:

Fair value per share prior to exercise of rights = 102/100.86 = 1.01  
Theoretical ex - rights value per share

**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.

**ANSWER-D****(5 MARKS)**

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless

(a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and  
(b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting Rs. 23,00,000 should not be capitalized and be charged to Profit and

Loss Statement.

- (ii) The company is required to expense the entire amount of Rs. 7,00,000 in the Profit and Loss account for the year ended 31<sup>st</sup> March, 2019 because no benefit will arise in the future.
- (iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of Rs. 25,00,000 and it should be recognized as expense
- (iv) Expenditure of Rs. 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

**ANSWER 2:**

**ANSWER-A**

**(10 MARKS)**

**In the books of Star Ltd.**

**Journal Entries**

<i>Particulars</i>		<i>Amount</i> Rs.	<i>Amount</i> Rs.
(i)	7% Preference share capital (Rs. 100) Dr.	9,00,000	
	To 9% Preference share capital (Rs. 80)		7,20,000
	To Capital reduction A/c		1,80,000
	(Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)		
(ii)	Equity share capital A/c (Rs. 100 each) Dr.	10,00,000	
	To Equity share capital A/c (Rs. 10 each)		1,00,000
	To Capital reduction A/c		9,00,000
	(Being reduction of nominal value of one share of Rs. 100 each to Rs. 10 each)		
(iii)	Bank A/c Dr.	50,000	
	To Capital reduction A/c		50,000
	(Being directors refunded the fee amount)		
(iv)	Trade payables A/c (Interest on debentures) Dr.	26,000	
	To Capital reduction A/c		26,000

		(Being interest forgone by the debenture holders)		
(v)		No entry required		
(vi) a		'B' 6% Debentures A/c Dr.	3,50,000	
		To Debentures holders A/c		3,50,000
		(Being amount due to Debentures holders)		
b		Debentures holders A/c Dr.	4,40,000	
		To Chennai Works A/c		4,25,000
		To Equity share capital A/c		15,000
		(Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)		
c		Equity share of Zia Ltd. A/c Dr.	90,000	
		To Debentures holders A/c		90,000
		(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)		
(vii) a		Chennai Works – Workmen Compensation Fund Dr.	4,000	
		To Capital reduction A/c		4,000
		(Being difference due to reduced amount of actual liability transferred to capital reduction account)		
b		Bank A/c Dr.		15,400
		To Investment for Workmen Compensation Fund		14,000
		To Capital reduction A/c		1,400
		(Being investment for Workmen Compensation Fund sold @ 10% profit)		
c		Trade Payables A/c Dr.	15,400	
		To Bank A/c		15,400
		(Being part payment made to trade payables)		
(viii)		Capital reduction A/c Dr.	2,10,000	
		To Provision for Doubtful Debts A/c		20,000
		To Inventory A/c		1,90,000

	(Being assets revalued)			
(ix)	Capital reduction A/c	Dr.	5,50,000	
	To Profit & Loss A/c			2,00,000
	To PPE – Chennai Works			3,50,000 <sup>2</sup>
	(Being assets revalued and losses written off)			
(x)	Capital reduction A/c	Dr.	4,01,400	
	To PPE – Bombay Works			2,67,600
	To Capital reserve A/c			1,33,800
	(Being assets revalued and remaining amount transferred to capital reserve account)			

### ANSWER-B

(10 MARKS)

(i)	<b>Capital Funds - Tier I :</b>		<b>Rs. in lakhs</b>	<b>Rs. in lakhs</b>
	Equity Share Capital			480,00
	Statutory Reserve			280,00
	Capital Reserve (arising out of sale of assets)			<u>9,30</u>
				769,30
	Capital Funds - Tier II :			
	Capital Reserve (arising out of revaluation of assets)		280	
	Less : Discount to the extent of 55%		<u>(154)</u>	<u>1,26</u>
				<u>770,56</u>
(ii)	<b>Risk Adjusted Assets</b>			
	Funded Risk Assets	Rs. in lakhs	Percentage weight	Amount Rs. in lakhs
	Cash Balance with RBI	4,80	0	—
	Balances with other Banks	12,50	20	2,50
	Claims on banks	28,50	20	5,70
	Other Investments	782,50	100	782,50
	Loans and Advances:			
(i)	guaranteed by government	128,20	0	—
(ii)	guaranteed by public sector undertakings of Central Govt.	702,10	0	—
(iii)	Others	52,02,50	100	52,02,50
	Premises, furniture and fixtures	1,82,00	100	1,82,00
	Other Assets	2,01,20	100	<u>2,01,20</u>
				<u>63,76,40</u>
	Off-Balance Sheet Item	Rs. in	Credit	

	lakhs	Conversion Factor	
Acceptances, Endorsements and Letters of credit	37,02,50	100	<u>37,02,50</u>
			100,78,90

$$\text{Risk Weighted Assets Ratio} = \frac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + Off Balance Sheet items}} \times 100$$

$$= \frac{7,69,30 + 1,26}{63,76,40 + 37,02,50}$$

$$\text{Capital Adequacy Ratio} = \frac{770,56}{100,78,90} \times 100 = 7.65\%$$

Expected ratio is 9%. So the bank has to improve the ratio by introducing further Tier I capital.

**ANSWER 3:**

**Consolidated Balance Sheet of H Ltd.  
and its subsidiary S Ltd. as on 31st March, 2017**

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

**(4 MARKS)**

## Notes to Accounts

		(Rs. in Lacs)	(Rs. in Lacs)
1.	Share Capital		
	Authorised		<u>15,000</u>
	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	
	Unrealized Profit Rs. 20	<u>( Rs. 380)</u>	
		Rs. 2,335	
	Add: Share in S Ltd.'s Revenue profits	<u>Rs. 612</u>	<u>2,947</u> 7,159
3.	Trade payables		
	H Ltd.	1,461	
	S Ltd.	<u>854</u>	2,315
4.	Short term provisions		
	Provision for Taxation		
	H Ltd.	855	
	S Ltd.	<u>394</u>	1,249
5.	Other current liabilities		
	Bills Payable		
	H Ltd.	Rs. 372	
	S Ltd.	<u>Rs. 160</u>	
		Rs. 532	
	Less: Mutual owing	<u>Rs. (45)</u>	487
	Dividend payable		
	H Ltd.		<u>1,200</u>
			<u>1,687</u>
6.	Tangible assets		
	Land and Buildings		
	H Ltd.	2,718	
	Plant and Machinery		
	H Ltd.	Rs. 4,905	
	S Ltd.	<u>Rs. 4,900</u>	9,805
	Furniture and Fittings		
	H Ltd.	Rs. 1,845	
	S Ltd.	<u>Rs. 586</u>	<u>2,431</u> 14,954



7.	Inventories			
	Stock			
	H Ltd.		3,949	
	S Ltd.		<u>1,956</u>	
			5,905	
	Less: Unrealized profit		<u>(20)</u>	5,885
8.	Trade receivables			
	H Ltd.	Rs. 2,600		
	S Ltd.	<u>Rs. 1,363</u>		3,963
9.	Other current assets			
	Bills Receivable			
	H Ltd.	Rs. 360		
	S Ltd.	<u>Rs. 199</u>		
		Rs. 559		
	Less: Mutual Owing	<u>Rs. (45)</u>		<u>514</u>
10.	Cash and cash equivalents			
	Cash and Bank Balances			
	H Ltd.		1,490	
	S Ltd.		<u>204</u>	1,694
11.	Short term loans and advances			
	Sundry Advances			
	H Ltd.			520

(6 MARKS)

**Working Notes:**

(10 MARKS)

**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	1,800	By Balance b/d	3,000
To Balance c/d	1,380	By Profit and Loss A/c (Balancing figure)	180
	<b>3,180</b>		<b>3,180</b>

## 2. S Ltd.'s Profit and Loss Account

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

\*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)	1,200
Less: Share of H Ltd. 60% (General Reserve Rs. 108 + Profit and Loss Account Rs. 612)	(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
	<b>1,800</b>

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

Rs. in lakhs

## 5. Calculation of capital reserve

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

## 6. Calculation of Minority Interest

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

Share in capital profits [WN 4]	720
	3,120

7. Unrealized profit in respect of inventory

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

**ANSWER 4:**

**ANSWER-A**

1. **Computation of Purchase Consideration (Rs. in Lakhs)**

**(1 MARK)**

Particulars	Mahima	Nithya	Total
Preference Share Holders	120 Lakhs Shares x Rs. 10 = 1,200	-	1,200
Equity Share Holders	720 Lakhs x Rs. 10 = 7,200	90 Lakhs x Rs. 10 = 900	8,100
<b>Total</b>	<b>8,400</b>	<b>900</b>	<b>9,300</b>

2. **Analysis of Reserves to be incorporated in the books of Sona Ltd (Rs. in Lakhs)**

	Particulars	Mahima	Nithya
(a)	Purchase Consideration	8,400	900
(b)	Paid Up Capital (Equity + Preference)	4,800	900
(c)	Difference	3,600	-
(d)	Difference adjusted against the Reserves		
	- General Reserve of Mahima Ltd	2,100	-
	- Profit & Loss A/c of Mahima Ltd	780	-
	- Profit & Loss A/c of Sona Ltd (Balance)	720	-

**(2 MARKS)**

**3. Journal Entries in the Books of Sona Ltd (Rs. in Lakhs)**

**Nature of Amalgamation: Merger Method of Accounting: Pooling of Interest**

S.No.	Particulars	Dr.	Cr.
1.	Business Purchase A/c	Dr. 9,300	
	To Liquidator of Mahima Ltd A/c		8,400
	To Liquidator of Nithya Ltd A/c		900
	(Being purchase of business of Mahima Ltd & Nithya Ltd, and consideration due thereon)		
2.	Plant and Machinery A/c	Dr. 4,215	
	Furniture and Fixtures A/c	Dr. 2,400	
	Stock A/c	Dr. 2,370	
	Sundry Debtors A/c	Dr. 1,044	
	Cash at Bank A/c	Dr. 1,542	
	Profit & Loss A/c (WN 2)	Dr. 720	

	To Business Purchase A/c		8,400
	To Capital Reserve A/c		600
	To Trade Creditors A/c		2,421
	To Provisions A/c		870
	(Being recording of Assets and Liabilities taken over from of Mahima Ltd)		
3.	Plant and Machinery A/c	Dr.	468
	Furniture and Fixtures A/c	Dr.	183
	Motor Vehicles A/c	Dr.	51
	Stock A/c	Dr.	444
	Sundry Debtors A/c	Dr.	237
	Cash at Bank A/c	Dr.	240
	Preliminary Expenses A/c	Dr.	33
	Debentures Discount A/c	Dr.	6
	To Business Purchase A/c		900
	To Debenture Holders A/c		300
	To Trade Creditors A/c		369
	To Provisions A/c		93
	(Being recording of Assets and Liabilities taken over from Nithya Ltd)		
4.	Liquidator of Mahima Ltd A/c	Dr.	8,400
	Liquidator of Nithya Ltd A/c	Dr.	900
	To Equity Share Capital A/c		8,100
	To 11% Preference Share Capital A/c		1,200
	(Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)		
5.	Profit & Loss A/c	Dr.	6
	To Bank A/c		6
	(Being payment of Liquidation Expenses of Mahima and Nithya Ltd)		
6.	Debenture Holders A/c	Dr.	300
	To 8.5% Redeemable Debentures A/c		300
	(Being Allotment of 8.5% Debentures of Sona Ltd to Debenture Holders of Nithya Ltd)		
7.	Preliminary Expenses A/c	Dr.	15
	To Bank A/c		15
	(Being expenses incurred for formation of New Company)		
8.	Profit & Loss A/c	Dr.	54

To Preliminary Expenses (33+15)	48
To Debentures Discount	6
(Being Preliminary Expenses and Debentures Discount written off)	

(8\*1 = 8 MARKS)

**4. Balance Sheet of Sona Ltd as on 31st March (Pooling of Interest / Merger Method)**  
(Rs. in Lakhs)

Particulars as at 31st March	Note	This Year	Prev. Yr
<b>I EQUITY AND LIABILITIES:</b>			
(1) Shareholders' Funds:			
(a) Share Capital	1	9,300	
(b) Reserves and Surplus	2	(180)	
(2) Non-Current Liabilities:			
Long Term Borrowings 8.5% Redeemable Debentures (Secured)		300	
(3) Current Liabilities:			
(a) Trade Payables Creditors (2,421 + 369)		2,790	
(b) Short Term Provisions (870 + 93)		963	
<b>Total</b>		<b>13,173</b>	
<b>II ASSETS</b>			
(1) Non-Current Assets			
Fixed Assets: Tangible Assets	3	7,317	
(2) Current Assets:			
(a) Inventories Stock-in-Trade (2,370 + 444)		2,814	
(b) Trade Receivables Debtors (1,044 + 237)		1,281	
(c) Cash and Cash Equivalents Cash & Bank (1,542 + 240 - 15 -6)		1,761	
<b>Total</b>		<b>13,173</b>	

(4 MARKS)

**Note 1: Share Capital**

Particulars	This Year	Prev. Yr
Authorised:...Equity Shares of Rs. 10 each & ..... 11% Preference Shares of Rs. 10 each	15,000	
Issued, Subscribed & Paid up:		
(a) 810 Lakh Equity Shares of Rs. 10 each (All the above Shares were issued for non-cash consideration)	8,100	
(b) 120 Lakh 11% Preference Shares of Rs. 10 each (All the above Shares were issued for non-cash consideration)	1,200	
<b>Total</b>	<b>9,300</b>	

**Note 2: Reserves and Surplus**

	Particulars	This Year	Prev. Yr
(a)	Capital Reserve	600	
(b)	Surplus	Profit and Loss A/c (54 + 6 + 720)	(780)
	Total	(180)	

**Note 3: Tangible Fixed Assets**

Particulars	This Year	Prev. Yr
(a) Plant & Machinery (4,215 + 468)	4,683	
(b) Furniture & Fittings (2,400 + 183)	2,583	
(c) Motor Vehicles 4,6832,58351	51	
<b>Total</b>	<b>7,317</b>	

**ANSWER-B****(5 MARKS)**

Date	Particulars		Rs.	Rs.
31.3.20X2	Employees compensation expense A/c	Dr.	14,25,000	
	To ESOP outstanding A/c			14,25,000
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of Rs. 30 each, amortized on straight line basis over vesting years (Refer W.N.)			
	Profit and Loss A/c	Dr.	14,25,000	
	To Employees compensation expenses A/c			14,25,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.20X3	Employees compensation expenses A/c	Dr.	3,95,000	
	To ESOP outstanding A/c			3,95,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	3,95,000	
	To Employees compensation expenses A/c			3,95,000

	(Being expenses transferred to profit and Loss A/c)			
31.3.20X4	Employees compensation Expenses A/c	Dr.	8,05,000	
	To ESOP outstanding A/c			8,05,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	8,05,000	
	To Employees compensation expenses A/c			8,05,000
	(Being expenses transferred to profit and Loss A/c)			
20X4-X5	Bank A/c (85,000 × Rs. 20)	Dr.	17,00,000	
	ESOS outstanding A/c			
	[(26,25,000/87,500) × 85,000]	Dr.	25,50,000	
	To Equity share capital (85,000 × Rs. 10)			8,50,000
	To Securities premium A/c (85,000 × Rs. 40)			34,00,000
	(Being 85,000 options exercised at an exercise price of Rs. 50 each)			
31.3.20X5	ESOP outstanding A/c	Dr.	75,000	
	To General Reserve A/c			75,000
	(Being ESOP outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c)			

**Working Note:**

Statement showing compensation expense to be recognized at the end of:

Particulars	Year 1 (31.3.20X2)	Year 2 (31.3.20X3)	Year 3 (31.3.20X4)
Number of options expected to vest	95,000 options	91,000 options	87,500 options
Total compensation expense accrued (50-20)	<u>Rs. 28,50,000</u>	<u>Rs. 27,30,000</u>	<u>Rs. 26,25,000</u>

Compensation expense of the year	28,50,000 x 1/2 =Rs. 14,25,000	27,30,000 x 2/3 =Rs. 18,20,000	Rs. 26,25,000
Compensation expense recognized previously	<u>Nil</u>	<u>Rs.14,25,000</u>	<u>Rs.18,20,000</u>
Compensation expenses to be recognized for the year	<u>Rs.14,25,000</u>	<u>Rs.3,95,000</u>	<u>Rs.8,05,000</u>

**ANSWER 5:**

**ANSWER-A**

**Cash & Bank Account**

	Rs.		Rs.
To Balance b/d	240	By Realisation A/c-Creditors	14,040
To Realisation A/c-		By Realisation A/c-Expenses	1,800
Land	8,400	By G's Loan A/c	9,600
Plant and Machinery	6,000	By G's Capital A/c	16,280
Stock	3,600	By S's Capital A/c	28,680
Trade Debtors	1,920		
To Capital Accounts:			
G	27,200		
S	20,400		
J	50,240		
	<u>2,640</u>		
	70,400		70,400

**(4 MARKS)**

**Realisation Account**

	Rs.		Rs.
To Goodwill	48,000	By Trade Creditors	14,880
To Land	9,600	By Provision for Bad Debts	120
To Plant and Machinery	15,360	By Bank:	
To Motor Car	840	Land	8,400
To Stock	4,680	Plant and Machinery	6,000
To Sundry Debtors	2,400	Stock	3,600
To Bank (Creditors)	14,040	Debtors	<u>1,920</u>
To Bank (Expenses)	1,800		19,920
		By G (Car)	600
		By Capital Accounts: (Loss)	
		G	27,200
		S	20,400



		J	<u>13,600</u>	61,200
	96,720			96,720

(4 MARKS)

### Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Current A/c (Transfer)	5,800	—	3,680	By Balance b/d	24,000	24,000	12,000
To Realisation A/c (Loss)	27,200	20,400	13,600	By Current A/c (Transfer)	—	6,000	—
To Realisation A/c (Car)	600	—	—	By Bank	—	—	2,640
To J's Capital A/c (Deficiency)	1,320	1,320	—	By Bank* (realisation loss)	27,200	20,400	—
To Bank*	16,280	28,680	—	By G & S (Deficiency)	—	—	2,640
	51,200	50,400	17,280		51,200	50,400	17,280

(4 MARKS)

#### Note:

- G, S and J will bring cash to make good their share of the loss on realization.
- As per Garner Vs. Murray rule, solvent partners- G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

\*Alternatively, posting may be done for the net amount being received from /paid to G and S respectively.

#### Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

**ANSWER-B****Calculation of Total Remuneration payable to Liquidator**

		<i>Amount in Rs.</i>
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)		<u>58,882</u>
Total Remuneration payable to Liquidator		<u>1,37,257</u>

**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

=  $\frac{3}{103} \times \text{Rs. } 20,21,625 = \text{Rs. } 58,882$

(5 MARKS)

**ANSWER 6:****ANSWER-A**

(5 MARKS)

**1. Computation of Long Term Loan Funds**

Long Term Loan Funds = Total Long Term Funds Less Equity Funds = 320 - 210 = Rs. 110 Lakhs.

Interest at 18% thereon = Rs. 110 Lakhs x 18% = Rs. 19.80 Lakhs.

**2. Computation of Future Maintainable Profit**

Particulars	Owners Funds	Total Funds
Profit Before Interest	125.00	125.00
Less: Interest on Loans	19.80	NA
Profits before Tax	105.20	125.00
Less: Tax Expense at 30%	31.56	37.50
<b>Future Maintainable PAT</b>	<b>73.64</b>	<b>87.50</b>

### 3. Goodwill under different approaches Rs.Lakhs)

Particulars	Owners Funds	Total Funds
(a) Future Maintainable Profits after Tax	73.64	87.50
(b) Normal Rate of Return	25%	20%
(c) Normal Capital Employed = (a ÷ b)	294.56	437.50
(d) Actual Capital Employed (given)	210.00	320.00
<b>(e) Goodwill = (c - d)</b>	<b>84.56</b>	<b>117.50</b>

So, Leverage Effect on Goodwill = Rs. 117.50 - Rs. 84.56 = Rs. 32.94 Lakhs.

**ANSWER-B**

**(5 MARKS)**

#### Journal Entries

Date	Particulars	Dr.	Cr.
21st Apr	Bank A/c	Dr.	2,50,000
	To Investments A/c		2,00,000
	To Profit and Loss A/c		50,000
	(Being Investments sold at a Profit)		
25th Apr	Equity Share Capital A/c (25,000 x Rs. 10)	Dr.	2,50,000
	Premium on Buyback A/c (FV Rs. 10, Offer Price Rs. 15, So Premium 50%)	Dr.	1,25,000
	To Equity Shareholders A/c		3,75,000
	(Being Share Capital and Premium on Buyback transferred to Equity Shareholders A/c vide Board's Resolution No...dated... )		
25th Apr	Securities Premium A/c	Dr.	1,25,000
	To Premium on Buyback A/c		1,25,000
	(Being Premium on Buy Back provided from Securities Premium)		
25th Apr	Equity Shareholders A/c	Dr.	3,75,000
	To Bank A/c		3,75,000
	(Being amount paid to Equity Shareholders on Buy Back)		
25th Apr	General Reserve A/c	Dr.	2,50,000
	To Capital Redemption Reserve A/c		2,50,000
	(Being amount transferred to Capital		

	Redemption Reserve, to the extent of Nominal Value of Shares bought back)		
1st May	Capital Redemption Reserve A/c	Dr.	1,50,000
	To Bonus to Equity Shareholders A/c		1,50,000
	(Being Capital Redemption Reserve used for the purpose of issue of Bonus Shares = 1,00,000 - 25,000 = 75,000 Shares x 1/5 = 15,000 Shares)		
30th Apr	Bonus to Equity Shareholders A/c	Dr.	1,50,000
	To Equity Share Capital A/c		1,50,000
	(Being Bonus Shares allotted to Equity Shareholders)		

**ANSWER-C**

**(5 MARKS)**

Particulars	Loan Rs. Lakhs	Provision %	Provision Rs. Lakhs
Standard Assets (Assumed NBFC-D / NBFC-NDSI) (Note)	10,000	0.40%	40
Sub-Standard Assets	1,000	10%	100
Secured Portions of Doubtful Debts - up to one year	160	20%	32
- 1 year to 3 years	70	30%	21
- more than 3 years	20	50%	10
Unsecured Portions of Doubtful Assets	90	100%	90
Loss Assets	30	100%	30
Total			313

**Note:** For NBFC-Non Systemically Important Non Deposit taking Company, Provision for Standard Assets will be 0.25% = Rs. 25.

**ANSWER-D****(5 MARKS)**

MAT is treated as the current tax. The tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the profit and loss account in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, the said asset should be created by way of a credit to the profit and loss account and presented as a separate line item therein.

MAT credit should be presented under the head under the head 'Non-current Assets' sub head 'Long-term Loans and Advances' as per Schedule III to the Companies Act, 2013 considering that there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in the Guidance Note.