SUGGESTED SOLUTION

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 theprovision.

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 companywith respect to warranty is notcorrect.

ANSWER-B **(5 MARKS)**

As perAS 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 thelessee.

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). Asthe present value ofthe machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value ofRs.10,00,000.

Calculation of finance charges for each year

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

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

$$\frac{102 \times 2{,}50{,}000 \text{ Shares} + ₹\ 98 \times 1{,}00{,}000 \text{ shares}}{3{,}50{,}000 \text{ shares}}$$

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

Computation of adjustment factor:

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

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 x1.01) = 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 perAS 26 "Intangible Assets", subsequent expenditure on an intangible asset afterits purchaseoritscompletionshouldberecognizedasanexpensewhenitisincurredunless

(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 subsequentexpenditureshouldbeaddedtothecostoftheintangibleasset.

(i) Inthegivencase,thelegalexpensestodefendthepatentofaproductamountingRs. 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.7,00,000in the Profit and Loss account for the year ended 31st 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.50,00,000on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatmentbydebitingthesumof50lakhstoProfitandLossAccount.

ANSWER 2:

ANSWER-A

(10 MARKS)

In the books of StarLtd.

Journal Entries

	Particulars		*Amount* Rs.	*Amount* 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/cDr.		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/cDr.	3,50,000	
	To Debentures holders A/c		3,50,000
	(Being amount due to Debentures holders)		
b	Debentures holders A/cDr.	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/cDr.	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 FundDr.	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
	(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)	**Capital Funds - Tier I :**	**Rs. in lakhs**	**Rs. in lakhs**
	Equity Share Capital		480,00
	Statutory Reserve		280,00
	Capital Reserve (arising out of sale of assets)		9,30
			769,30
	Capital Funds - Tier II :		
	Capital Reserve (arising out of revaluation of assets)	280	
	Less : Discount to the extent of 55%	(154)	1,26
			770,56

(ii) Risk Adjusted Assets

	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	2,01,20
				63,76,40

Off-Balance Sheet Item	Rs. in lakhs	Credit Conversion Factor

Acceptances, Endorsements and Letters of credit	37,02,50	100	37,02,50
			100,78,90

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

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

Capital Adequacy Ratio = $\frac{770,56}{100,78,90}$ x 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)**
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**

(4 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		
	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

(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 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

Rs. in 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.

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
Total	**8,400**	**900**	**9,300**

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
I	**EQUITY AND LIABILITIES:**			
(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	
	Total		**13,173**	
II	**ASSETS**			
(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	
	Total		**13,173**	

(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	
Total		9,300	

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	
Total	**7,317**	

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) x 85,000]	Dr.	25,50,000	
	To Equity share capital (85,000 x Rs. 10)			8,50,000
	To Securities premium A/c (85,000 x 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)	Rs. 28,50,000	Rs. 27,30,000	Rs. 26,25,000

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	Nil	Rs.14,25,000	Rs.18,20,000
Compensation expenses to be recognized for the year	Rs.14,25,000	Rs.3,95,000	Rs.8,05,000

ANSWER 5:

ANSWER-A

Cash &BankAccount

	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 2,640	50,240		
	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	1,920	19,920
To Bank (Expenses)	1,800	By G (Car)		600
		By Capital Accounts: (Loss)		
		G	27,200	
		S	20,400	

		J	13,600	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:

1. G,SandJwillbringcashtomakegoodtheirshareofthelossonrealization.
2. As per Garner Vs. Murray rule, solvent partners- G andS have to bear the loss due to insolvency of a partner J intheir fixed capital ratio.

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

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.

(3 MARKS)

ANSWER-B

Calculation of Total Remuneration payable toLiquidator

		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

(5 MARKS)

ANSWER 6:

ANSWER-A

(5 MARKS)

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	` (80-70) lakh x 30% =` 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	`10 lakh x 30% = ` 3 lakh
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable

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 andlossaccountandpresentedasaseparatelineitemtherein.

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.