J.K. SHAH TEST SERIES

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SUGGESTED SOLUTION

INTERMEDIATE Nov 2018 EXAM

SUBJECT- ADVANCE ACCOUNTS

Test Code - PIN 5022

BRANCH - () (Date : //)

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Answer 1:

(A)

A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

(B)

Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

Rs. 75,00,000 / 10,00,000 = Rs. 7.50 per share

Computation of diluted earnings per share $\dfrac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	Rs.
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of Rs. 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures
= 1,10,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= 80,60,000/ 11,10,000 = Rs. 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

(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 ` 3,00,000 (75% of ` 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of `1,95,000 for the year ended 31st March, 2017.

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 ` 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ` 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

(D)

	Rs. in crore
Cost of construction of bridge incurred upto 31.3.18	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

= (4/10)100 = 40%

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=Rs. 12.60 crore x 40% = Rs. 5.04 crore

Profit for the year ended 31st March, 2018 = Rs. 5.04 crore less Rs. 4 crore = 1.04 crore

Answer 2:
(A)

Statement determining the maximum number of shares to 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

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. 30 per 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)		

Working Notes:

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)

(i) Computation of total liability of underwriters in shares

	(In shares)			
	Amit	**Sumit**	**lalit**	**Total**
Gross liability	1,20,000	50,000	30,000	2,00,000
Less: Marked applications (excluding firm underwriting)	(80,000)	(35,000)	(24,800)	(1,39,800)
	40,000	15,000	5,200	60,200
Less: Unmarked applications in the ratio of gross liabilities of 12:5:3 (excluding firm underwriting)	(15,000)	(6,250)	(3,750)	(25,000)
	25,000	8,750	1,450	35,200
Less: Firm underwriting	(10,000)	(6,000)	(4,000)	(20,000)
	15,000	2,750	(2,550)	15,200
Less: Surplus of Lalit adjusted by Amit and Sumit in 12:5	(1,800)	(750)	2,550	
Net liability	13,200	2,000	-	15,200
Add: Firm underwriting	10,000	6,000	4,000	20,000
Total liability	23,200	8,000	4,000	35,200

(ii) Calculation of amount payable to or due from underwriters

	Amit	Sumit	Lalit	Total
Total Liability in shares	23,200	8,000	4,000	35,200

Amount receivable @ Rs. 30 from underwriter (in Rs.)	6,96,000	2,40,000	1,20,000	10,56,000
Less: Underwriting Commission payable @ 5% of Rs. 30 (in Rs.)	(1,80,000)	(75,000)	(45,000)	(3,00,000)
Net amount receivable (in Rs.)	5,16,000	1,65,000	75,000	7,56,000

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 86,400 shares

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

(ii) Balance Sheet of PQ Ltd. on 31st 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

Working Notes:

1. Calculation of goodwill of P Ltd.

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)

	Rs.
Profit for equity fund after current cost adjustment	1,72,000
Current cost of capital employed (by Equity approach)	10,40,000
Value of Goodwill by Equity Approach	
Capitalized value of Profit as per equity approach = $\frac{1,72,000}{15.60} \times 100$	11,02,564
Less: Capital employed as per equity approach	(10,40,000)
Value of Goodwill	62,564

Answer 4:
(A)

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

		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

(B)

Statement of liabilities of B list contributories

Share-holders	*No. of shares transferred*	*Maximum liability (upto Rs. 2 per share)*	*Division of Liability as on*				
			1.5.2017	*1.10.2017*	*1.11.2017*	*1.2.2018*	*Total*
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

P	1,500	3,000	1,500	–	–	–	1,500
Q	1,000	2,000	1,000	555	–	–	1,555
R	500	1,000	500	278	188	–	966
S	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	Cumulative liability	Increase in liability	Ratio of no. of shares held by the members
1.5.2017	3,300	–	30 : 20 : 10 : 6
1.10.2017	4,300	1,000	20 : 10 : 6
1.11.2017	4,600	300	10 : 6
1.2.2018	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of Rs. 600, therefore amount payable by S is restricted to Rs. 21 only, on 1.2.2018.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2017 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

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

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 × 20	(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 Ltd.	(20)	480
			1,070
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

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).

(B)

(i) Net Premium earned

		Rs. In lakhs
Premium from direct business received	4,400	
Add: Receivable as 31.03.18	189	
Less: Receivable as on 01.04.2017	(220)	4,369
Add: Premium on re-insurance accepted	376	
Add: Receivable as on 31.03.18	16	
Less: Receivable as on 01.04.2017	(18)	374
		4,743
Less: Premium on re-insurance ceded	305	
Add: Payable as on 31.03.18	9	
Less: Payable as on 01.04.17	(14)	(300)
Net Premium earned		4,443

(ii) Net Claims incurred

		Rs. In lakhs
Claims paid on direct business		3,450
Add: Reinsurance	277	
Add: Reinsurance outstanding as 31.03.18	6	
Less: Reinsurance outstanding as on 01.04.2017	(8)	275

Less: Claims Received from re-insurance	101	
Add: Receivable as on 31.03.18	19	
Less: Receivable as on 01.04.2017	(20)	100
		3,625
Add: Outstanding direct claims at the end of the year		48
		3,673
Less: Outstanding Claims at the beginning of the year		(45)
Net Claims Incurred		3,628

Answer 6:

(A)

Statement showing the Movement of Unit Holders' Funds

for the year ended 31st March, 2018

	(Rs. '000)
Opening balance of net assets	18,00,000
Add: Par value of units issued (12,75,300 × Rs. 100)	1,27,530
Net Income for the year	1,27,500
Transfer from Reserve/Equalisation fund (Refer working note)	23,085
	20,78,115
Less: Par value of units redeemed (11,28,450 × Rs. 100)	(1,12,845)
Closing balance of net assets (as on 31st March, 2018)	19,65,270

Working Note:

Particulars	Issued	Redeemed
Units	12,75,300	11,28,450
	Rs. 000	Rs. 000
Par value	1,27,530	1,12,845
Sale proceeds / Redemption value	1,44,750	1,06,980
Profit transferred to Reserve / Equalisation Fund	17,220	5,865
Balance in Reserve / Equalisation Fund (Issued & Redeemed)	23,085	

(B)

In the books of Company

Journal Entries

Date	Particulars	Dr. Rs.	Cr. Rs.

1-3-X2	Bank A/c Dr. Employees compensation expenses A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)	2,40,000 4,32,000	48,00 0 6,24,00 0
31-3-	Profit and Loss account Dr. To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	4,32,000	4,32,000

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = 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 x 4,800 = Rs. 6, 24,000 in total.

(C)

Journal Entries

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