SUGGESTED SOLUTION

CA INTERMEDIATE NOV 19

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8460

BRANCH - () (Date :)

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ANSWER 1 (A)

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)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of Rs. 50,000 for the year ended 31st March, 2018.

Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to a third party.20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,00,000 (80% of Rs.1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 2,50,000 (50,000 + 1,00,000+ 1,00,000) will be recognized for the year ended 31st March, 2018 in the books of B.S. Ltd.

(5 MARKS)

ANSWER 1 (B)

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. **(5 MARKS)**

ANSWER 1 (C)

According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment Rs.	Internal rate of return (Discount rate @10%)	Present value Rs.
1	3,50,000	0.909	3,18,150
2	3,50,000	0.826	2,89,100
3	3,50,000	0.751	2,62,850
4	4,20,000	0.683	2,86,860
Total	14,70,000		11,56,960

Present value of minimum lease payments *Rs.* 11,56,960 is more than fair value at the inception of lease i.e. Rs. 11,50,000, therefore, the lease liability and machinery should be recognized in the books at *Rs.* 11,50,000 as per AS 19. **(5 MARKS)**

ANSWER 1 (D)

Calculation of foreseeable loss for the year ended 31st March, 2019
(as per AS 7 "Construction Contracts")

	(Rs. in lakhs)
Cost incurred till 31st March, 2019	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of Rs.12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019.

(5 MARKS)

ANSWER 2(A)

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2019

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of Rs. 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500

II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(b) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

(3.5 MARKS)

Notes to Accounts

				Rs.
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,25,000	
	S Ltd.		1,25,000	
	Less: Mutual transaction		(40,000)	4,10,000
3.	Tangible Assets			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	H Ltd.		4,73,000	
	S Ltd.		2,37,000	

				7,10,000
	Less: Mutual transaction			(40,000)
				6,70,000
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

(3.5 MARKS)

Working Notes:

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018

	Rs.
Machinery	
Revaluation as on 1.4.2018	3,00,000
Less: Book value as on 1.4.2018	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	(40,000)
Loss on revaluation	(10,000)

(1 MARK)

2. Calculation of short/excess depreciation

	Machinery	***Furniture***
Upward/ (Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

(1 MARK)

3. Analysis of reserves and profits of S Ltd. as on 31.03.2019

	Pre-acquisition profit upto 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
	(Capital profits)	**General Reserve**	**Profit and loss account**
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000		35,000
Upward Revaluation of machinery as on 1.4.2018	1,00,000		
Downward Revaluation of Furniture as on 1.4.2018	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

(3 MARKS)

4. Minority Interest

	Rs.
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

(2 MARKS)

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (Rs. 64,000 + Rs.72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

(1 MARK)

ANSWER 2(B)

(a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.

(1 MARK)

(b) L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid- up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	2/3 X 30/100	=	3/15
M	=	2/3 X 30/100	=	3/15
N	=	2/3 X 20/100	=	2/15
O	=	2/3 X 20/100	=	2/15
X	=	1/3 X 40/100	=	2/15
Y	=	1/3 X 30/100	=	1/10
Z	=	1/3 X 20/100	=	1/15
K	=	1/3 X 10/100	=	1/30

(4 MARKS)

ANSWER 3(A)

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

		Dr. Rs.	Cr. Rs.
Fixed Assets	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
Fixed Assets (115% of Rs.5,00,000)	Dr.	5,75,000	
Inventory (95% of Rs. 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(Rs. 80,000 –Rs.60,000 dividend paid)			
To Provision for Bad Debts (5% of Rs. 3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (Rs. 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures	Dr.	36,000	
To 12% Debentures			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			

Goodwill To Bank (Being liquidation expenses reimbursed to MG Ltd.)	Dr.	60,000	 60,000
Capital Reserve/P&L A/c To Goodwill (Being goodwill set off)	Dr.	60,000	 60,000

(8 MARKS)

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

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

Issued 80,000 shares of Rs.10 each i.e. Rs.8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

Rs.2,00,000x 90/100 Rs. 1,80,000 (ii)

Consideration amount [(i) + (ii)] Rs. 9,80,000

(2 MARKS)

ANSWER 3(B)

BT Limited

Liquidator's Statement of Account

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

(6 MARKS)

Working Notes:

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

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

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

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

Less: Balance available after payment to unsecured and preference shares

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

Rs.8,10,150

Loss to be born by 30,000 equity shares

Loss per share Rs.27.005

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

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

(4 MARKS)

ANSWER 4(A)

Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2018	Rate of discount	Discount Amount
1,46,200	4.5.18	(30+ 4) = 34	15%	2,043
2,30,400	12.5.18	(30+12) = 42	15%	3,977
4,35,900	28.5.18	(30+28) = 58	15%	10,390
4,36,200	18.6.18	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.18	(30+ 31+30+4) = 95	16%	11,165
15,16,800	Rebate on bills discounted on 31.3.2018			42,681

(2 MARKS)

In the books of SM Bank Ltd.

Journal Entries

(i)	Rebate on bills discounted Account To Discount on bills Account [Being opening balance of rebate on bills discounted account transferred to discount on bills account]	Dr.	26,592	26,592
(ii)	Bills purchased & discounted Account To Discount on bills Account To Clients Account (Being bills purchased and discounted during the year)	Dr	15,16,800	1,26,859 13,89,941

(iii) Discount on bills Account To Rebate on bills discounted Account [Being provision made on 31st March, 2018]	Dr.	42,681	42,681
(iv) Discount on bills Account To Profit and loss Account [Being transfer of discount on bills, of the year, to profit and loss account]	Dr.	1,10,770	1,10,770

Credit to Profit and Loss A/c will be as follows: Rs. (1,26,859 + 26,592 – 42,681) = Rs.1,10,770

(4 MARKS)

Statement showing the amount of provisions on Assets

			(Rs. in lakhs)
Assets	Amount	% of provision	Provision
Standard:			
Advances to CRE	15,00	1	15
Others	60,00	.4	24
Sub-standard:			
Secured	40,00	15	6,00
Unsecured- Others	15,00	25	3,75
Unsecured infrastructure	5,00	20	1,00
Doubtful Secured:			
up to one year	12,00	25	3,00
For more than 1 year up to 3 years	9,00	40	3,60
More than 3 years	4,00	W.N.1	2,75
Doubtful unsecured (more than 3 years)	5,00	100	5,00
Loss	15,00	100	15,00
Total Provision Required			40,49

(3 MARKS)

Working Note:

Provision required where assets are ECGC covered

	Rs. In Lakhs
Outstanding balance (ECGC Covered)	4,00
Less: Value of security	1,50
Unrealised balance	2,50
Less: ECGC Cover @ 50%	1,25
Net Unsecured Balance	1,25
Provision for unsecured portion @100%	1,25
Provision for secured portion @100%	1,50
Total Provision to be made	2,75

(1 MARK)

ANSWER 4(B)

(i) Computation of total liability of underwriters in shares

	(In shares)			
	Ashish	Alok	Ajay	*Total*
Gross liability (excluding promoters)	4,00,000	3,00,000	3,00,000	10,00,000
Less: Marked applications (excluding firm underwriting)	(97,500)	(1,95,000)	(1,48,500)	(4,41,000)
	3,02,500	1,05,000	1,51,500	5,59,000
Less: Unmarked applications in the ratio of gross liabilities of 4:3:3 (excluding firm underwriting)	(60,000)	(45,000)	(45,000)	(1,50,000)
	2,42,500	60,000	1,06,500	4,09,000
Less: Firm underwriting	(80,000)	(30,000)	(1,10,000)	(2,20,000)
	1,62,500	30,000	(3,500)	1,89,000
Less: Surplus of Ajay adjusted in Ashish and Alok in Gross liability Ratio 4:3	(2,000)	(1,500)	3,500	
Net liability	1,60,500	28,500	-	1,89,000
Add: Firm underwriting	80,000	30,000	1,10,000	2,20,000
Total liability	2,40,500	58,500	1,10,000	4,09,000

(4 MARKS)

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

	Ashish	Alok	Ajay	*Total*
Total Liability in shares	2,40,500	58,500	1,10,000	4,09,000
Amount receivable @ Rs. 20 from underwriter (in Rs.)	48,10,000	11,70,000	22,00,000	81,80,000
Less: Amount paid for firm underwriting* at Rs. 14 per share (including share premium)	11,20,000	4,20,000	15,40,000	30,80,000
Balance due from underwriters	36,90,000	7,50,000	6,60,000	51,00,000
Less: Underwriting Commission payable @ 5% of Rs. 20 (in Rs.)	(4,00,000)	(3,00,000)	(3,00,000)	(10,00,000)
Net amount receivable (in Rs.)	32,90,000	4,50,000	3,60,000	41,00,000

* Assuming that Application money has been paid by the underwriters **(3 MARKS)**

(iii) Journal Entries in the books of the company (relating to underwriting)

			Rs.	Rs.
	Bank A/c	Dr.	30,80,000	
	To equity share application A/c			30,80,000
	(Being application money received on firm undertaking of 2,20,000 shares at Rs. 14 per share)			
	Ashish	Dr.	36,90,000	
	Alok	Dr.	7,50,000	
	Ajay	Dr.	6,60,000	
	Equity share application A/c	Dr.	30,80,000	
	To Share Capital A/c			40,90,000
	To Securities Premium A/c			40,90,000
	(Being allotment of shares to underwriters)			
	Underwriting commission A/c	Dr.	10,00,000	
	To Ashish			4,00,000
	To Alok			3,00,000
	To Ajay			3,00,000
	(Being amount of underwriting commission payable)			
	Bank A/c*	Dr.	41,00,000	
	To Ashish			32,90,000
	To Alok			4,50,000
	To Ajay			3,60,000
	(Being net amount received by underwriters for shares allotted less underwriting commission)			

* Considering net amount received from underwriters. **(3 MARKS)**

ANSWER 5(A)

The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than Rs. 65. The company should recognize value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000

Fair value = 48,000 × Rs. 9 = Rs. 4,32,000

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = Rs. 4,32,000 /3 = Rs. 1,44,000

(3 MARKS)

Year 2017-18

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000

Fair value = 47,000 × Rs. 9 = Rs. 4,23,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= (Rs. 4,23,000/ 3) × 2 = Rs. 2,82,000

Value of option recognised as expense in 2016-17 = Rs. 1,44,000

Value of option recognised as expense in 2017-18

= Rs. 2,82,000 – Rs. 1,44,000 = Rs. 1,38,000 **(3 MARKS)**

Year 2018-19

Fair value of option per share = Rs. 9

Number of shares actually vested under the scheme = 45 × 1,000 = 45,000

Fair value = 45,000 × Rs. 9 = Rs. 4,05,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 =Rs. 4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = Rs. 2,82,000

Value of option recognised as expense in 2018-19 = Rs. 4,05,000 – Rs. 2,82,000 = Rs. 1,23,000

(4 MARKS)

ANSWER 5(B)

Capital Employed at the end of each year

Rs. in thousand

	31.3.2016 Rs.	31.3.2017 Rs.	31.3.2018 Rs.
Goodwill*	1,000	800	600
Building and Machinery (Revaluation)	1,800	2,000	2,200
Inventory (Revalued)	1,200	1,400	1,600
Trade Receivables	20	160	440
Bank Balance	120	200	400
Total Assets	4,140	4,560	5,240
Less: Trade Payables	(600)	(800)	(1,000)
Closing Capital	3,540	3,760	4,240
Add: Opening Capital	3,660	3,540	3,760
Total	7,200	7,300	8,000
Average Capital	3,600	3,650	4,000

*Since the goodwill has been purchased, it is taken as a part of Capital employed.

(4 MARKS)

Valuation of Goodwill

(i) Future Maintainable Profit	31.3.2016	31.3.2017	31.3.2018
Net Profit as given	420	620	820
Less: Opening Balance	(120)	(140)	(160)
Adjustment for Valuation of Opening Inventory	-	(200)	(200)
Add: Adjustment for Valuation of closing inventory	200	200	200
Goodwill written off	-	200	200
Transferred to General Reserve	200	200	200
Future Maintainable Profit	700	880	1060
Less: 12.50% Normal Return	(450)	(456.25)	(500)
(ii) Super Profit	250	423.75	560

(4 MARKS)

(iii) Average Super Profit = Rs. (250 + 423.75 + 560) ÷ 3 = Rs. 411.25 (thousand).

(iv) Value of Goodwill at five years' purchase= Rs. 411.25 × 5 = Rs. 2056.25 (thousand).

(2 MARKS)

ANSWER 6(A)

Calculation of provision required on advances as on 31st March, 2018:

	Amount Rs. in lakhs	Percentage of provision	Provision Rs. in lakhs
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
up to one year	160	20	32
one year to three years	45	30	13.5
more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	24
			851.10

(5 MARKS)

ANSWER 6(B)

Journal of M/s Short Live Insurance Co. Ltd. **(Rs. in crores)**

		Dr.	Cr.
1 April, 2017	Unexpired Risks Reserve A/c (Fire) Dr.	60	
	Unexpired Risks Reserve A/c (Marine) Dr.	80	
	Unexpired Risks Reserve A/c (Misc) Dr.	20	
	To Fire Revenue A/c		60
	To Marine Revenue A/c		80
	To Miscellaneous Revenue A/c		20
	(Being opening balances transfered to Revenue Accounts)		
March, 31 2018	Marine Revenue A/c Dr.	60	
	To Unexpired Risks Reserve A/c		60
	(Being the required closing balance of Rs. 60 crores (72 + 28 – 40) charged to marine revenue account)		
	Fire Revenue A/c Dr.	86	
	To Unexpired Risks Reserve A/c		86
	Being the required closing balance of Rs. 86 crores [(172 + 20 – 20)/2] charged to fire revenue account)		
	Miscellaneous Revenue A/c Dr.	17	
	To Unexpired Risks Reserve A/c		17
	(Being the required closing balance of Rs. 17 crores [(48 + 16 – 30)/2] charged to misc. revenue account)		

Note: Alternative solution without reversing the opening balances of unexpired risk reserves and passing entry only for the net amount to be transferred from P&L A/c after adjusting opening balances is also possible.

(5 MARKS)

ANSWER 6(C)

Journal Entries in the books of Bheema Limited

S.No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c	Dr.	10,00,000	
	To Equity Share Capital (New) A/c			6,00,000
	(Rs. 10,00,000 x 3/5)			
	To 10% Preference Shares A/c			1,20,000
	(Rs. 6,00,000 x 1/5)			
	To 8% Debentures A/c			40,000
	To Capital Reduction A/c			2,40,000
	(Being 1,00,000 existing Equity Shares of Rs. 10 each reduced to 60,000 fully paid Equity Shares of Rs. 10 each, 10% Preference Shares to the extent of 1/5th			

	of New Equity Shares and 8% Debentures for Rs. 40,000 vide approved scheme of Reconstruction datedand balance credited to Reconstruction A/c)			
2.	Cash A/c	Dr.	1,00,000	
	To 10% First Debentures A/c			1,00,000
	(Being issue of 10% First Debentures worth Rs. 1,00,000 against Cash vide approved scheme of Reconstruction dated....)			
3.	Capital Reduction A/c	Dr.	1,40,000	
	To Goodwill A/c			1,40,000
	(Being Goodwill written off vide approved Scheme of Reconstruction dated ....)			
4.	Capital Reduction A/c	Dr.	50,000	
	To Plant and Machinery A/c			50,000
	(Being value of Plant and Machinery written down from Rs. 2,00,000 to Rs. 1,50,000 vide approved scheme of Reconstruction dated...)			
5.	Capital Reduction A/c	Dr.	50,000	
	To Freehold Property A/c			50,000
	(Being value of Freehold Property written down by Rs. 50,000 vide approved scheme of Reconstruction dated....)			

(5 MARKS)

ANSWER 6(D)

Investment in Debentures Account

		Rs. Lakh			*Rs. Lakh*
June 1, 2017	To Bank	21.40	June 1, 2017	By Interest Recoverable (Note 1)	0.40
Nov 1, 2017	To Bank	10.90	Nov 1, 2017	By Interest Recoverable (Note 2)	0.10
Feb 28, 2018	To Interest Recoverable (Note 3)	0.60	Feb 28, 2018	By Bank	13.56
Feb 28, 2018	To Profit on disposal (Note 4)	0.24	Mar 31, 2018	By Balance c/d	19.08
		33.14			33.14

(3 MARKS)

Working Notes:

Note 1: 20,000 x 100 x 12/100 x 2/12 = Rs. 0.40 Lakhs

Note 2: 10,000 x 100 x 12/100 x 1/12 = Rs. 0.10 Lakhs

Note 3: 12,000 x 100 x 12/100 x 5/12 = Rs. 0.60 Lakhs

Note 4: Cost of investments (per unit) = [(21,40,000 -40,000) +(10,90,000– 10,000)]/30,000 units

= [21,00,000+ 10,80,000]/30,000 = Rs.106

Cost of investments sold = Rs. 106 x 12,000 = Rs.12,72,000

Sale proceeds = Rs. 13,56,000 - Rs. 60,000 (interest) = Rs.12,96,000

Profit = Rs.12,96,000 - Rs.12,72,000 = Rs.24,000

(2 MARKS)

ANSWER 6(E)

Computation of basic earnings per share

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

Rs. 37,50,000 / 5,00,000 = 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	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of Rs. 4,00,000)	(1,20,000)
Adjusted net profit for the current year	40,30,000

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

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

= 5,55,000 shares (5,00,000 + 55,000)

Diluted earnings per share = 40,30,000/ 5,55,000 = 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.

(5 MARKS)