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INTERMEDIATE N'19 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code – PIN 5032

BRANCH - () (Date :)

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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.)
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) Present value of guaranteed residual value Rs. 50,000 x (0.5523)	Rs. 9,79 ,405 Rs. 27,615
	Rs. 10,07,020

ANSWER-C **(5 MARKS)**

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

= Rs. 80,60,000/ 11,10,000

= Rs. 7.26 per share

Note:

1. 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.
2. The date of issue of convertible debentures is not given in the question. It has been assumed that debentures were issued at the beginning of the year.

ANSWER-D **(5 MARKS)**

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of Rs. 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of Rs.37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of Rs.3 crores to the Profit and Loss account of the year is correct.

ANSWER 2:

ANSWER-A

1. Statement of Underwriters' Liability (No. of Shares), and Amount Receivable / Payable

Particulars	**Parvati**	**Ganesa**	**Karthikeya**	**Total**
Gross Liability	5,00,000	5,00,000	5,00,000	15,00,000
Less: Marked Applications	(4,25,000)	(4,50,000)	(3,50,000)	(12,25,000)
Less: Unmarked Applications (See Note below)	(24,000)	(24,000)	(24,000)	(72,000)
Less: Firm Underwriting	(50,000)	(50,000)	(50,000)	(1,50,000)
Net Balance	1,000	(24,000)	76,000	53,000
Adjust: Ganesa's Surplus transferred to Parvati and Karthikeya in Gross Liability Ratio (equally)	(12,000)	24,000	(12,000)	-
Revised Net Liability	(11,000)	-	64,000	53,000
Adjust: Parvati's Surplus transferred to Karthikeya	11,000	-	(11,000)	-
Net Final Liability	-	-	53,000	53,000
Add: Firm Underwriting	50,000	50,000	50,000	1,50,000
Total Liability = Shares to be taken up by Underwriters	**50,000**	**50,000**	**1,03,000**	**2,03,000**
Amount Due upto Allotment at 4.50 per Share (Rs.)	2,25,000	2,25,000	4,63,500	9,13,500
Less: Amount paid for Firm Underwriting for 50,000 Shares at Rs. 2.50 per Share (Rs.)	(1,25,000)	(1,25,000)	(1,25,000)	(3,75,000)
Balance Due from Underwriters	1,00,000	1,00,000	3,38,500	5,38,500
Less: Underwriting Commission payable by Company	(2,50,000)	(2,50,000)	(2,50,000)	(7,50,000)
Amount Due from / (Payable to) Underwriters	(1,50,000)	(1,50,000)	88,500	(2,11,500)

Note: Shares offered to Public = 20,00,000 - 5,00,000 (Issued to Promoters) = 15,00,000 Shares

Unmarked Applications, = 72,000, i.e. Total Applications 12,97,000 - Marked Applications (4,25,000 + 4,50,000 + 3,50,000 = 12,25,000). These are distributed in the ratio of Gross Liability, i.e. equally.

Commission Payable is calculated on Shares issued to public at Par Value, i.e. Gross Liability x Rs. 10 x 5%.

(5 MARKS)

2. Journal Entries in the books of Lingaraj Ltd (relating to Underwriters only)

	Particulars		**Dr. (Rs.)**	**Cr. (Rs.)**
1	Bank A/c	Dr.	3,75,000	
	To Equity Share Application A/c			3,75,000
	(Being Application Money received on Firm undertaking for 50,000 Shares each at Rs. 2.50 per Share from Parvati, Ganesa and Karthikeya)			
2	Parvati A/c (WN 1)	Dr.	1,00,000	
	Ganesa A/c (WN 1)	Dr.	1,00,000	
	Karthikeya A/c (WN 1)	Dr.	3,38,500	
	Equity Share Application A/c	Dr.	3,75,000	
	To Equity Share Capital A/c			9,13,500
	(2,03,000 Shares x Rs. 4.50)			
	(Being allotment of Shares to Underwriters - 50,000 to Parvati, 50,000 to Ganesa and 1,03,000 to Karthikeya, Application and Allotment money credited to Equity Share Capital A/c vide Board's Resolution No... dated....)			
3	Underwriting Commission A/c	Dr.	7,50,000	
	To Parvati A/c			2,50,000
	To Ganesa A/c			2,50,000
	To Karthikeya A/c			2,50,000
	(Being Underwriting Commission payable to Parvati, Ganesa and Karthikeya at 5% of the Issue Price of Shares underwritten)			
4	Parvati A/c	Dr.	1,50,000	
	Ganesa A/c	Dr.	1,50,000	
	To Bank A/c			3,00,000
	(Being amount paid to Parvathi and Ganesa in final			

	settlement of Underwriting Commission Due Less amount receivable from them on Shares allotted)			
5	Bank A/c	Dr.	88,500	
	To Karthikeya A/c			88,500
	(Being amount received from Karthikeya on Shares allotted, Less Underwriting Commission payable to him)			

(5*1 = 5 MARKS)

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

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		
	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)	1,200
Less: Share of H Ltd. 60%	(720)
(General Reserve Rs. 108 + Profit and Loss Account Rs. 612)	
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)	2,880
Add: Share in capital profits [WN 4]	1,080
	3,960
Less: Cost of shares less dividend received (Rs. 3,000 – Rs. 360)	(2,640)
Capital reserve	1,320

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

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**	

(5 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

Revenue Account of Kalyan General Insurance Company for the year ended 31.03.2018

Particulars	Sch.	This Yr	Last Yr
Premium (Net)	1	59,75000	
Total (A)		59,75,000	

	Particulars	Sch.	This Yr	Last Yr
1.	Claims Incurred	2	45,26,000	
2.	Commission	3	1,47,000	
3.	Operating Expenses related to Insurance Business (2,30,000 - 45,000 - 35,000)		1,50,000	
	Total (B)		**48,23,000**	
	Operating Profit / (Loss) from Insurance Business (A - B)		**11,52,000**	
	Appropriations		**NIL**	
	Total (C)		**11,52,000**	

(4 MARKS)

Schedule 1 - Premium Earned (Net)

Particulars		This Yr	Last Yr
	Premium from Direct Business Written	65,75,000	
Add :	Premium on Re-Insurance accepted	9,50,000	
Less :	Premium on Re-Insurance ceded	(4,75,000)	
	Net Premium	70,50,000	
Less:	Changes in Unexpired Risk Reserve Provn [Reqd 50% of 70,50,000 - Opg 24,50,000)]	(10,75,000)	
	Total Premium Earned (Net)	**59,75,000**	

(2 MARKS)

Schedule 2 - Claims Paid (Net)

	Particulars	This Yr	Last Yr
Claims Paid - Direct (Paid 42,50,000 + Legal Exps 45,000 + Surveyor's Fees 35,000)		43,30,000	
Add: Claims paid on Re-Insurance Accepted		5,00,000	
Less: Claims from Re-Insurance Ceded (Received 3,25,000 + Due at end 1,10,000 - Due at opg 65,000)		(3,70,000)	
Net Claims Paid		44,60,000	
Add: Claims Outstanding as on 31.03.2018 (Direct Rs. 7,18,000 +Re-Insurance Rs. 60,000)		7,78,000	
Less: Claims Outstanding as on 01.04.2017 (Direct 6,25,000 + Re-Insurance 87,000)		(7,12,000)	
Total Claims Incurred		**45,26,000**	

(3 MARKS)

Schedule 3 - Commission

Particulars	This Yr	Last Yr
Commission Paid	1,50,000	
Add: Re-Insurance Accepted	11,000	
Less: Commission on Re-Insurance ceded	(14,000)	
Net Commission	**1,47,000**	

(1 MARK)

ANSWER-B

(5 MARKS)

Liquidator's Statement of Account

Receipts	Rs.	Payments	Rs.
Land & building	6,20,000	Liquidator's remuneration	46,000
Inventory in trade	3,10,000	Liquidation expenses	86,000
Plant & machinery Book	7,10,000	Preferential creditors	1,05,000
debts	6,60,000	10% Debentures	2,10,000
		Income tax payable	67,000
		Bank overdraft	4,85,000
		Trade creditors	6,00,000
		Preference shareholders:	
		Capital	5,00,000
		Arrears of preference dividend for 3 years	1,50,000
		Refund on 5,000 shares of Rs. 60 paid up @ Rs. 10.10 per share (Refer W.N.)	50,500
		Refund on 5,000 shares of Rs. 50 paid up @ Rs. 0.10 per share (Refer W.N.)	500
	23,00,000		**23,00,000**

Working Note:

	Rs.
Total equity capital paid up (3,00,000 + 2,50,000)	5,50,000
Less : Balance available after payment to secured, unsecured, preferential creditors and preference shareholders (23,00,000 − 46,000 − 86,000 − 2,10, 000 − 1,05,000 − 67,000 − 4,85,000 − 6,00,000 − 5,00,000 − 1,50,000)	(51,000)
Loss to be borne by 10,000 equity shareholders	4,99,000
Loss per share	Rs. 49.90
Hence, amount of refund on Rs. 50 per share paid up (Rs. 50 − Rs. 49.90)	Rs. 0.10
Amount of refund on Rs. 60 per share paid up (Rs. 60 − Rs. 49.90)	Rs. 10.10

ANSWER-C **(5 MARKS)**

Allocation of Earnings	Old Unit Holders	New Unit Holders	Total
	[18 lakhs units]	[2 lakhs units]	
	Rs. in lakhs	Rs. in lakhs	Rs. in lakhs
First half year (Rs. 5 per unit)	90.00	Nil	90.00
Second half year (Rs. 3.60 per unit)	64.80	7.20	72.00
	154.80	7.20	162.00
Add: Equalization payment recovered	-	-	10.00
Total available for distribution			172.00
Equalization Payment - Rs. 90 lakhs ÷ 18 lakhs = Rs. 5 per unit			
	Old Unit Holders	New Unit Holders	
	Rs.	Rs.	
Dividend distributed	8.60	8.60	
Less: Equalization payment	-	(5.00)	
	8.60	3.60	

Journal Entries

(Rs. in lakhs)

30.9.2016	Bank A/c	Dr.	150.00	
	To Unit Capital			20.00
	To Reserve			120.00
	To Dividend Equalization			10.00
	(Being the amount received on sale of 2 lakhs unit at a NAV of Rs. 70 per unit)			

31.3.2017	Dividend Equalization	Dr.	10.00	
	To Revenue A/c			10.00
	(Being the amount transferred to Revenue Account)			
30.9.2017	Revenue A/c	Dr.	172.00	
	To Bank			172.00
	(Being the amount distributed among 20 lakhs unit holders @ Rs. 8.60 per unit)			

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
Future Maintainable PAT	**73.64**	**87.50**

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
(e) Goodwill = (c - d)	**84.56**	**117.50**

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.

ANSWER-E **(5 MARKS)**

Eight Schedule of the SEBI (Mutual Fund) Regulations, 1996 states the Investment Valuation Norms for traded securities. The significant norms can be explained as:

(i) The securities shall be valued at the last quoted closing price on the recognized stock exchange.

(ii) When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is principally traded. It would be left to the asset management company to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. There should however be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority in value of the investments is principally traded.

(iii) Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the asset management company.

(iv) When on a particular valuation day, a security has not been traded on the selected stock exchange, the value at which it is traded on another stock exchange may be used.

(v) When a security is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than sixty days prior to the valuation date.