IPCC – November 2017

PAPER 5: ADVANCED ACCOUNTANCY

Test Code: PRI 5
Branch (MULTIPLE) Date : 10.10.17

(50 Marks)

Note: ***Question No.1 is compulsory. Candidates are required to answer any five questions from the remaining six questions.***

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Question 1

a. 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. **(2 marks)**

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: **(3 marks)**

Year	*Minimum Lease Payment* `	*Internal rate of return*	*Present value* `
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	7,50,000*	0.5718	4,28,850
Total	26,25,000		18,55,850

Present value of minimum lease payments ` 18,55,850 is less than fair value at the inception of lease i.e. ` 20,00,000, therefore, the lease liability should be recognized at ` 18,55,850 as per AS 19.

**Minimum Lease Payment of 4th year includes guaranteed residual value amounting `1,25,000.*

b.

No. of Bonus shares issued as on 1.1.2015

On existing shares (50,00,250 x ½) 25,00,125 shares

On convertible debentures as per SEBI Guidelines on Bonus Issue

(1,00,000 debentures x 10 shares x ½) 5,00,000 shares

Basic Earnings per share for the year 2014-15 =

$$\frac{\text{Net profit for the year ended 31.3.2015}}{\text{Weighted average number of equity share as on 31.3.2015}}$$

(2 marks)

$$\frac{₹\ 1,00,25,000}{(50,00,250 + 25,00,125 + 5,00,000)} = ₹\ 1.25$$

Adjusted earnings per share for the year 2013-14

$$= \frac{₹\ 75,50,000}{(50,00,250 + 25,00,125 + 5,00,000)} = ₹\ 0.94$$

For Diluted EPS

Interest expense for the current year = ₹ 12,00,000

Tax relating to interest expense (30%) =₹ 3,60,000

Adjusted net profit for the current year =₹ 1,00,25,000 + (12,00,000 - 3,60,000) x 3/12

(3 marks)

=₹ 1,02,35,000

No. of equity shares resulting from conversion of debentures

= 1,00,000 x 10 shares = 10,00,000

No. of equity shares used to compute diluted earnings per share

= 50,00,250 + 25,00,125 + 5,00,000 + (10,00,000 x 3/12)

= 50,00,250 + 25,00,125 + 5,00,000 + 2,50,000

= 82,50,375 shares

Diluted earnings per share = 1,02,35,000/82,50,375 = ₹ 1.24

Note: As per AS 20, bonus shares issued to existing shareholders and to convertible debenture holders (on conversion of debentures into shares) are an issue without consideration. Therefore, it is treated as if it had occurred prior to the beginning of the year 2013- 14, the earliest period reported.

c.

(i) Computation of average accumulated expenses (1 mark)

		`
` 1,60,000 x 12 / 12	=	1,60,000
` 2,70,000 x 8/ 12	=	1,80,000
` 4,20,000 x 5 / 12	=	1,75,000
` 1,50,000 x 1 / 12	=	12,500
		5,27,500

(ii) Calculation of average interest rate other than for specific borrowings(1 mark)

Amount of loan (`)	*Rate of interest*		*Amount of interest (`)*
3,00,000	12%	=	36,000
7,00,000	14%	=	98,000
10,00,000			1,34,000
Weighted average rate of interest {(1,34,000/ 10,00,000) x 100}		=	13.40% (approx)

(iii) Interest on average accumulated expenses(1 mark)

		`
Specific borrowings (` 2,00,000 x 11%)	=	22,000
Non-specific borrowings (` 3,27,500* x 13.40%)	=	43,885
Amount of interest to be capitalized	=	65,885

(` 5,27,500 – ` 2,00,000)

(iv) Total expenses to be capitalized for building(1 mark)

	`
Cost of building ` (1,60,000+2,70,000+4,20,000+1,50,000)	10,00,000
Add: Amount of interest to be capitalised	65,885
	10,65,885

(v) Journal Entry(1 mark)

Date	*Particulars*		*Dr. (`)*	*Cr. (`)*
31.12.2014	Building account	Dr.	10, 65,885	
	To Bank account			10, 65,885
	(Being amount of cost of building and borrowing cost thereon capitalized)			

d.

i) According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2013 i.e. before the balance sheet date. Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013. **(2 ½ marks)**

(ii) AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2013.

Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ` 40 lakhs in April, 2013 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions. **(2 ½ marks)**

Question 2

Balance Sheet of the PQR Pvt. Ltd. as on 1-4-2015

(a) **(3 marks)**

	Note No.	`
Equity and Liabilities		
Shareholders funds		
Share capital	1	1,90,000
Current liabilities		
Trade Payables		48,000
Total		2,38,000
Assets		
Non-current assets		
Fixed assets		
Tangible assets	2	1,22,000
Intangible assets	3	36,000
Current assets		
Inventories		50,000
Trade Receivables		30,000
Total		2,38,000

Notes to Accounts (2 marks)

		`
1.	*Share Capital*	
	Equity share capital 18,000 fully paid shares of ` 10 each	1,80,000
	Preference share capital (9% Preference Shares)	10,000
	(All the shares have been issued for consideration other than cash)	1,90,000
2.	*Tangible assets*	
	Plant and Machinery	1,02,000
	Fixtures	20,000
		1,22,000
3.	*Intangible assets*	
	Goodwill	36,000

(b) In the books of Partnership Firm

Partners' Capital Accounts (3 marks)

	P `	Q `	R `		P `	Q `	R `
To Plant and machinery account	3,000	2,000	1,000	By Balance b/d	50,000	30,000	20,000
To Equity shares in PQR Pvt. Ltd.	90,000	60,000	30,000	By Reserve fund	30,000	20,000	10,000
To 9% Preference shares in PQR Pvt. Ltd.	5,000		5,000	By Realization A/c (Profit on sale of business)	18,000	12,000	6,000
	98,000	62,000	36,000		98,000	62,000	36,000

(c) Statement showing the final settlement between the Partners taking Q's capital as basis (4 marks)

	P	Q	R	Total
	`	`	`	`
Value of Equity Shares to be allotted, taking Q's capital as basis P's Capital = 60,000 × 3/2 R's Capital = 60,000 × 1/2	90,000	60,000	30,000	
Total Value of Equity Shares allotted to P,Q and R				1,80,000
9% Preference Shares to be allotted to P ` (95,000-90,000)	5,000			
9%Preference Shares to be allotted to R ` (35,000-30,000)			5,000	
Total Value of Preference Shares allotted to P and R				10,000
Total Purchase Consideration				1,90,000

Taking Q's capital as Basis, both P and R have ` 5,000 each as excess in their capital account balances. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to P and R for ` 5,000 each and the remaining amount of ` 1,80,000 in the form of Equity Shares to be divided among P, Q and R in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing preference dividend.

Working Notes:

1. Calculation of goodwill (2 marks)

	2010-11 `	*2011-12* `	*2012-13* `	*2013-14* `	*2014-15* `
Profits	10,000	(5,000)	18,000	27,000	30,000
Adjustment for abnormal loss in 2011-12	—	10,000	—	—	—
	10,000	5,000	18,000	27,000	30,000
Total Profit from 2010-11 to 2014-15					90,000
Average Profit (90,000 / 5)					18,000
Goodwill equal to 2 years' purchase					36,000

2 Purchase consideration - Computation of Value placed on business: (2 marks)

	`
Assets :	
Goodwill	36,000
Plant & Machinery	1,02,000
Fixtures	20,000
Stock	50,000
Sundry Debtors	30,000
	2,38,000
Less: Liabilities:	
Creditors	48,000
Purchase Consideration	1,90,000

Question 3

a.

In the books of XYZ Marine Insurance Ltd.

	Amount (`)
(i) Net Premium earned (4 marks)	
Premium from Direct Business received	92,00,000
Add: Receivable as on 31.03.2014	3,94,000
Less: Receivable as on 01.04.2013	(4,59,000)
Sub Total (A)	91,35,000

Premium on reinsurance accepted	7,86,000
Add: Receivable as on 31.03.2014	33,000
Less: Receivable as on 01.04.2013	(37,000)
Sub Total (B)	7,82,000
Premium on reinsurance Ceded	6,36,000
Add: Payable as on 31.03.2014	20,000
Less: Payable as on 01.04.2013	(28,000)
Sub Total (C)	6,28,000
Premium Earned (A+B-C)	92,89,000
(ii) Net Claims Incurred (4 marks)	
Claims paid on direct business	73,00,000
Add: Outstanding as on 31.03.2014	1,01,000
Less: Outstanding as on 01.04.2013	(94,000)
Sub Total (A)	73,07,000
Reinsurance claims	5,80,000
Add: Outstanding as on 31.03.2014	12,000
Less: Outstanding as on 01.04.2013	(16,000)
Sub Total (B)	5,76,000
Claims received from reinsurance	2,10,000
Add: Outstanding as on 31.03.2014	39,000
Less: Outstanding as on 01.04.2013	(42,000)
Sub Total (C)	2,07,000
Net Claim Incurred (A+B-C)	76,76,000

b.

In the books of P Ltd.

Journal Entries

Date	Particulars		(`)	(`)
31.3.2011	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses for 6 months recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of ` 90 each, amortised on straight line basis over 4 $\frac{1}{2}$ years [(8,000 stock options x ` 90)/4.5 years] x 0.5) (W.N.1)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at the year end)			
31.3.2012	Employees compensation expenses account	Dr.	1,60,000	
	To Employee stock option outstanding account			1,60,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of ` 90 each, amortised on straight line basis over 4 $\frac{1}{2}$ years (8,000 stock options x ` 90)/4.5 years) x 1 year)			
	Profit and loss account	Dr.	1,60,000	
	To Employees compensation expenses account			1,60,000
	(Being expenses transferred to profit and loss account at year end)			

31.3.2013	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of ` 90 each, amortised on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ` 90)/4.5 years)			
	Employee stock option outstanding account (W.N.2)	Dr.	1,20,000	
	To General Reserve account (W.N.2)			1,20,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2014	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ` 90 each, amortised on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ` 90)/4.5 years)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2015	Employees compensation expenses account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ` 90 each, amortised on straight line basis over $4\frac{1}{2}$ years [(4,000 stock options x ` 90)/4.5 years])			

	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
30.9.2015	Bank A/c (3,000 × ` 80)	Dr.	2,40,000	
	Employee stock option outstanding	Dr.	2,70,000	
	To Equity share capital account (3,000 x ` 10)			30,000
	To Securities premium (` 170 – ` 10) x 3,000			4,80,000
	(Being 3,000 employee stock option exercised at an exercise price of ` 80 each)			
	Employee stock option outstanding account (W.N.3)	Dr.	90,000	
	To General reserve account (W.N.3)			90,000
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)			

Working Notes:

1. Fair value = ` 170 – ` 80 = ` 90
2. At 1.12.12, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = ` (80,000 + 1,60,000) x 4,000/8,000
   = ` 1,20,000
3. Expenses charged on lapsed vested options transferred to general reserve
   = 1,000 x ` 90 = ` 90,000

(1 mark for each year accounting, 30.09.2015- 2 marks, 1 mark – working notes)

Question 4

a.

(i) **Department Trading Account**
For the year ending on 31.03.2013
In the books of Head Office (2 marks)

Particulars	`	*Particulars*	`
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d	58,880	By Closing Stock	22,880
	3,23,880		3,23,880

(ii) **Memorandum stock account (for Department A) (at selling price) (4 marks)**

Particulars	`	Particulars	`
To Balance b/d (` 65,000+25% of ` 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (` 2,00,000 + 25% of ` 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (` 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	28,200
	3,31,250		3,31,250

(iii) Memorandum Departmental Mark-up Account (4 marks)

Particulars	`	Particulars	`
To Memorandum Departmental Stock A/c (` 1,000 × 25/100)	250	By Balance b/d (` 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1200	By Memorandum Departmental Stock A/c(2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(` 28,200 + 400*) x 25/125 - 400]	5,320		
	66,250		66,250

*[` 1,200 ×5,000/15,000] = 400

Working Notes:

(i) Calculation of Cost of Sales (1 mark)

		`
A	Sales as per Books	3,00,000
B	*Add*: Mark-down in opening stock (given)	600
C	*Add*: mark-down in sales out of current Purchases (` 1,200 x 10,000 /15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	*Less*: Gross Profit (25/125 of ` 3,01,400) subject to Mark Down (` 600 + ` 800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing Stock (1 mark)

		`
A	Opening Stock	65,000
B	*Add*: Purchases	2,00,000
C	*Less*: Cost of Sales	(2,41,120)
D	*Less*: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	22,880

a.

In the books of ABC Ltd.
New York Branch Trial Balance in (`)
as on 31st March, 2015
(6 marks)

	Conversion (`)	*Dr.* `	*Cr.* `
Stock on 1.4.14	40	6,000	–
Purchases and sales	41	16,400	30,750
Sundry debtors and creditors	42	8,400	6,300
Bills of exchange	42	2,520	5,040
Sundry expenses	41	22,140	–
Bank balance	42	8,820	–
Delhi head office A/c	–	–	22,190
		64,280	64,280

Question 5

In the books of R Ltd.
Ledger Accounts
Capital Reduction Account (3 marks)

		`			`
To	Intangibles (68,000 – 48,000)	20,000	By	8% Cumulative preference shares capital account	1,60,000
To	Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By	Equity share capital account	4,80,000
To	Deferred revenue expenditure account	48,000	By	Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To	Profit and loss account	4,40,000	By	Stock account (2,50,000 –2,48,000)	2,000
To	Investment account (W.N. 2)	11,500			
To	Provision for doubtful debts	6,400			
To	Capital reserve account (Bal				

Fig)	2,56,100		
	8,82,000		8,82,000

Equity Share Capital Account (2 marks)

		`			`
To	Capital reduction account	4,80,000	By	Balance b/d	4,80,000
To	Balance c/d	6,60,000	By	Equity share final call account (64,000 × ` 2.5)	1,60,000
			By	Loan from Directors account (60,000 / 2.5 = 24,000 Equity Shares	60,000
			By	Bank account (Further issue of 64,000 +24,000 Equity Shares: 2 for every 1 share held = 1,76,000 shares @ ` 2.5 each)	4,40,000
		11,40,000			11,40,000

8% Cumulative Preference Share Capital Account(2 marks)

		`			`
To	10% Cumulative preference share capital account	4,80,000	By	Balance b/d	6,40,000
To	Capital reduction account	1,60,000			
		6,40,000			6,40,000

Bank Account (2 marks)

		`			`
To	Equity share final call account	1,60,000	By	Balance b/d (overdraft)	2,08,000
To	Equity share capital account	4,40,000	By	Balance c/d	5,12,000
To	10% Cumulative preference share capital account	1,20,000			
		7,20,000			7,20,000
To	Balance b/d	5,12,000			

10% Cumulative Preferences Share Capital Account (2 marks)

		`			`

To Balance c/d	6,00,000	By 8% Cumulative preference share capital account	4,80,000
		By Bank (1 for every 4 pref shares held = 64,000 /4 = 16.000 shares @ ` 7.5 each)	1,20,000
	6,00,000		6,00,000
		By Balance b/d	6,00,000

R. Ltd., (and Reduced)
Balance Sheet as at 1 April, 2008 (2 marks)

Particulars	Note No	`
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,60,000
(b) Reserves and Surplus	2	2,56,100
(2) Current Liabilities	3	4,40,000
Total		19,56,100
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	5,20,000
Intangible assets		48,000
(b) Non-current investments	5	3,12,500
(2) Current assets		
(a) Inventories		2,50,000
(b) Trade receivables	6	3,13,600
(c) Cash and cash equivalents		5,12,000
Total		19,56,100

Notes to Accounts (3 marks)

		`
1.	**Share Capital**	
	Authorised	14,00,000
	Issued: 80,000 10% Cumulative preference shares of ` 7.5 each	6,00,000
	2,64,000 equity shares of ` 2.5 each	6,60,000
		12,60,000

2.	**Reserve and Surplus**	
	Capital Reserve	2,56,100
3.	**Current liability**	
	creditors	4,40,000
4.	**Fixed Assets**	
	Freehold premises	3,80,000
	Plant and equipment	1,40,000
		5,20,000
5.	**Non Current Investments**	
	Investment in Q Ltd., (W.N.1)	3,12,500
6.	**Trade receivables**	
	Debtors less provision for doubtful debts (`3,20,000 – `6,400)	3,13,600

Working Notes:

1. Valuation of investments in shares of Q Ltd., = $\frac{\text{`}2,50,000}{12\%} \times \frac{15}{100}$ = ` 3,12,500

2. Reduction in the value of investment in shares of Q Ltd.

   ` 3,24,000 – `3,12,500 = `11,500.

Question 6

a. **1. Determination of Buy back of maximum no. of shares as per the Companies Act, 2013 1. Shares Outstanding Test (1/2 Mark)**

Particulars	*(Shares)*
Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. **Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves(1 Mark)**

Particulars	
Paid up capital (**`)**	12,50,000
Free reserves (**`)** (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (**`)**	31,25,000
25% of Shareholders fund (**`)**	7,81,250
Buy back price per share	` 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy back	25,000

(a) Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back(1 Mark)

	Particulars	`
(a)	Loan funds (**`)** (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (**`)** (a/2)	22,62,500

(c)	Present equity/shareholders fund (`)	31,25,000
(d)	Future equity/shareholders fund (`) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e)	Maximum permitted buy back of Equity (`) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ ` 20 per share	28,750 shares
(g)	Actual Buy Back Proposed	25,000 Shares

Summary statement determining the maximum number of shares to be bought back(1 Mark)

Particulars	*Number of shares*
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 2012.

However, company wants to buy-back only 25,000 equity shares @ ` 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares (1 ½ mark)

			Debit(`)	*Credit (`)*
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of ` 10 each @ ` 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	

	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Balance Sheet of M/s. Competent Ltd.
as on 31st March, 2012 (2 marks)

			Particulars	Note No	Amount
					`
			EQUITY AND LIABILITIES		
1			**Shareholders' funds**		
	(a)		Share capital	1	10,00,000
	(b)		Reserves and Surplus	2	16,25,000
2			**Non-current liabilities**		
	(a)		Long-term borrowings	3	28,75,000
3			**Current liabilities**		16,50,000
			Total		71,50,000
			ASSETS		
1			**Non-current assets**		
	(a)		Fixed assets		46,50,000
2			**Current assets**(30,00,000-5,00,000)		25,00,000
			Total		71,50,000

Notes to accounts (1 marks)

			`	`
1.	**Share Capital**			
	Equity share capital			
	1,00,000 Equity shares of `10 each			10,00,000
2.	**Reserves and Surplus**			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilisation for share buy-back	(2,50,000)	-	
	Capital Redemption Reserves		2,50,000	16,25,000
3.	**Long-term borrowings**			
	Secured			

	12% Debentures Unsecured loans	18,75,000 10,00,000	28,75,000

Working Note

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

$$(31,25,000 - x) - 22,62,500 = y \qquad (1)$$

$$\left(\frac{y}{20} \times 10\right) = x \qquad \text{Or} \qquad 2x = y \qquad (2)$$

by solving the above equation we get

$$x = ₹\ 2,87,500$$

$$y = ₹\ 5,75,000$$

b.

When the benefit of firm underwriting is given to individual underwriters

(i) Total marked applications: (1/2 mark)

M	N	O	P	
2,50,000	2,00,000	2,00,000	80,000	= 7,30,000

(ii) Shares subscribed excluding firm underwriting (1/2 mark)

Total applications	8,00,000	shares
Less : Marked applications	(7,30,000)	shares
Unmarked	70,000	

Statement showing Liability of underwriters (2 marks)

	M	*N*	*O*	*P*	*Total*
Gross liability	3,50,000	3,00,000	2,50,000	1,00,000	10,00,000
Less: Marked applications	(2,50,000)	(2,00,000)	(2,00,000)	(80,000)	(7,30,000)
	1,00,000	1,00,000	50,000	20,000	2,70,000
Less: Unmarked (in Gross Ratio)	(24,500)	(21,000)	(17,500)	(7,000)	(70,000)
	75,500	79,000	32,500	13,000	2,00,000
Less: Firm underwriting	(30,000)	(50,000)	40,000	(18,500)	(1,38,500)
	45,500	29,000	(7,500)	(5,500)	61,500
Less: Surplus of 'O' and 'P' allotted to M,& N (35:30)	7,000	6,000	7,500	5,500	–
Net liability	38,500	23,000	-	-	61,500

(iv) Statement of underwriters' liability (2 marks)

	M	*N*	*O*	*P*	*Total*
Firm	30,000	50,000	40,000	18,500	1,38,500
Others	38,500	23,000	-	-	61,500

TOTAL	68,500	73,000	40,000	18,500	2,00,000

(v) Amounts due from underwriters

(1 ½ marks)

	M	*N*	*O*	*P*	Total
Shares to be subscribed as per (iv) above	68,500	73,000	40,000	18,500	2,00,000
Amount due @ ` 60 per share	41,10,000	43,80,000	24,00,000	11,10,000	1,20,00,000
Less: Commission due on shares underwritten	(10,50,000)	(9,00,000)	(7,50,000)	(3,00,000)	(30,00,000)
	30,60,000	34,80,000	16,50,000	8,10,000	90,00,000

(vi) Commission payable to underwriters (1 mark)

M	10,00,000 X 100 X 35% X 3% =	10,50,000
N	10,00,000 X 100 X 30% X 3% =	9,00,000
O	10,00,000 X 100 X 25% X 3% =	7,50,000
P	10,00,000 X 100 X 10% X 3% =	3,00,000

Journal Entry (1/2 mark)

		`	`
Bank A/c		5,70,00,000	
Underwriting Commission A/c	Dr.	30,00,000	
To Equity share Application A/c			6,00,00,000

Question 7

*Attempt any **four** out of the following*

a.

Particulars	*Financial Capital Maintenance at Historical Cost* **(`)**
Closing equity (` 30 x 60,000 units)	18,00,000 represented by cash
Opening equity	60,000 units x ` 20 = 12,00,000
Permissible drawings to keep Capital intact	6,00,000 (18,00,000 – 12,00,000)

(4 marks)

b. As per para 31 of AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy. **(2 marks)**

(ii) The adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy. **(2 marks)**

c. Computation of provision to be made by a Bank (4 marks)

	`
Outstanding Value of Doubtful Asset (up to 3 years)	7,24,000
Less :Value of security (excluding ECGC cover)	**(**` 1,75,000)
Sub Total	` 5,49,000
Less :ECGC Cover (subject to ` 1,50,000 maximum)	**(**` 1,50,000)
Unsecured Portion	` 3,99,000
Provision:	
For unsecured portion @ 100% of ` 3,99,000	` 3,99,000
For secured portion @ 40% of ` 1,75,000	` 70,000
Total Provision	` 4,69,000

d. Classification of following accounts for the presentation in Schedule VI to the Companies Act, 1956 (1/2 mark each)

Sl. No.	*Accounts*	*Head*
(i)	Share application money received in excess of issued share capital	Other Current Liabilities
(ii)	Share option outstanding account	Reserve & Surplus
(iii)	Unpaid matured debenture and interest accrued thereon	Other Current Liabilities
(iv)	Uncalled liability on shares and other partly paid investments	Contingent Liabilities and commitments-commitments to the extent not provided for
(v)	Calls unpaid	Share Capital
(vi)	Intangible Assets under development	Fixed Assets
(vii)	Money received against share warrant	Shareholders' Fund
(viii)	Long term maturity of finance lease obligation	Long Term Borrowings

e. As per AS 12, refund of Government Grant is treated in the following manner:

a. When Government Grant is related to Revenue**: (1 1/2 marks)**

   i. The amount of refund is first adjusted against any unamortized deferred credit balance still remaining in respect of the Grant

   ii. Any excess refund over such deferred credit balance or where no deferred credit exists, is immediately charged to Profit & Loss Account.

b. When Government Grant is related to specific Fixed Asset: **(1 ½ marks)**

i. The amount of refund will increase the Book Value of the Asset, if at the time of receipt of Grant, the cost of asset was reduced by the amount of Grant.
ii. If at the time of receipt, the Grant amount was credited to Deferred Grant Account, then the amount of refund will first reduce the unamortized balance of Deferred Grant Account, any excess refund will reduce the Capital Reserve.

c. When the Government Grant is in the nature of Promoter's Contribution: Capital Reserve will be reduced by the amount of refund. **(1 mark)**

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