INTER CA – MAY 2018

PAPER 5 :ADVANCED ACCOUTING
Branch: Multiple Date:

Note: All questions are compulsory.

Question 1

A) 1. Basic Computations (2 marks)

1. Cost Incurred Till Date (Cost of Work Certified ` 1250 + Cost of Work Not Certified ` 250)	` 1,500 Crores
2. Total Expected Cost on Contract (Cost till date ` 1500 + Estimated Further Cost ` 1750)	` 3,250 Crores
3. Precentage of Completion = $\frac{Cost\ incurred\ till\ date}{Estimate\ Total\ Costs} = \frac{`1500}{`3250}$	46.15%
4. Expected Total Loss on Contract (Contract Price ? 2400 Less Total Expected Cost ` 3250)	` 850 Crores

2. Disclosure / Recognition under AS – 7 (3 marks)

1. Contract Revenue Recognized (Contract Price ` 2,400 Crores x 46.15%)	` 1,107.60 Crores
2. Contract Costs Recognized	` 1,500.00 Crores
3. Loss Recognized for the Year	` 392.40 Crores
4. Further Loss to be Provided for (Total Loss ` 850 Cr Less Current Year Loss ` 392.40 Cr.)	` 457.60 Crores
5. Progress Payments Received	` 1,100.00 Crores
6. Gross Amount Due To Customers (Note)	` 750 Crores

Note: Contract Costs ` 1500 Crores less Recognized Losses ` 850 Crores less Progress Payments Received ` 1100 Crores less Progress Payments to be received ` 300 Crores = (` 750 Crores), i.e. Amount Due To Customers.

B)

1. Holding: As per the holding structure given above, P Ltd has an economic interest of 26% in R Ltd. (Total Holding = Direct Holding of 14% + Indirect Holding through Q Ltd, i.e. 60% of 20% = 12%). (1 mark)
2. Substantial Interest and Significant Influence:
   (a) An Enterprise / Individual is considered to have a substantial interest in another enterprise, if that Enterprise / Individual owns, directly or indirectly, 20% or more interest in the voting power of the other enterprise.
   (b) When an investing party holds, directly or indirectly through intermediaries, 20% or more of the voting power, it is presumed that there is a significant influence, unless otherwise proved.(1.5 marks)
3. Analysis:
   (a) P Ltd is a majority Shareholder (60%) in Q Ltd. Thus, P Ltd has control over Q Ltd.
   (b) Q Ltd holds 20% Shares in R Ltd. So, Q Ltd has significant influence over R Ltd. [As per Point 2(a) 8i (b) above].
   (c) P Ltd and Q Ltd, together hold 14% + 20% = 34% of the Shares in R Ltd. So, P Ltd has significant influence over R Ltd. [As per Point 2(a) and (b) above]. (1.5 marks)
4. Conclusion: P Ltd, Q Ltd and R Ltd are Related Parties. Hence, the disclosure requirements of AS - 18 are applicable in the above case. (1 marks)

C) Historical Cost of Software is determined as under –(5 marks)

Particulars			`
Purchase Price ($1,00,000 x ` 52) [Spot Rate under AS 11]		52,00,000	
Less:	Trade Discounts at 5% on above	ss(2,60,000)	
	Net Invoice Value		49,40,000
Add :	Import Duty (20% on Net Invoice Value)		9,88,000
Add:	Purchase Tax (assumed no credit available) 10% on (Net Invoice Value + Import Duty)		5,92,800
Add:	Installation Expenses		25,000
Add:	Professional Fees for clearance from Customs		20,000
Total			65,65,800

Note: Entry Tax is not added to the Cost of the Software since it is recoverable from the Tax Department.

D)

1. Expenditure charged to P&L for 2016-2017: ` 16 Lakhs will be recognized as an Expense because the recognition criteria were not met until 1st December 2016. This expenditure will not form part of the cost of the Production Process recognized in the Balance Sheet. (1.5 mark)
2. Carrying Amount of Intangible Asset as on 31.03.2017: Production Process will be recognized (i.e. Carrying Amount) as an Intangible Asset at a cost of ` 24 Lakhs (i.e. expenditure incurred till the date in which recognition criteria were met, i.e. Total during FY 2016-2017 ? 40 Lakhs less Expenses upto 1st Dec 2016 ` 16 Lakhs). (1 mark)
3. Expenditure charged to P&L A/c for 2017-2018: (1.5 marks)

Particulars	` Lakhs
Book Value on 31.3.2018 = Carrying Amt on 31.3.2017 + Expenditure in 2017-2018 = 24 + 70	94
Less: Recoverable Amount	62
Impairment Loss to be charged to P&L A/c	32

4. Carrying Amount of Intangible Asset as on 31.03.2018: The Production Process will be shown at Book Value ` 94 Lakhs, or Recoverable Amount ` 62 Lakhs, whichever is less, hence at ` 62 Lakhs as above. (1 mark)

Question 2

1. Loss to be borne by Equity and Preference Shareholders and Sharing of Loss (8 marks)

Particulars	`
Profit and Loss Account (Debit Balance)	7,00,000
Preliminary Expenses	1,00,000
Goodwill	2,00,000
Plant and Machinery (` 18,00,000 - ` 15,00,000)	3,00,000
Debtors (` 7,50,000 - ` 4,00,000)	3,50,000
Amount to be Written otf	16,50,000
Less: 50% of Sundry Creditors = Claim foregone	3,50,000
Total Loss to be Borne by the Equity and Preference Shareholders	13,00,000
Total Loss of ` 13,00,000 being more than 50% of Equity Share Capital, i.e. ` 10,00,000	
(a) Pref. Shareholders' Share of Loss (20% of 10,00,000), contributed by Pcef. Capital Reduction	2,00,000
(b) Balance being Equity Shareholders' Share of Loss (` 13,00,000 - ` 2,00,000), contributed by Equity Capital Reduction	11,00,000

Note: Two years' Preference Dividend (Arrears) has been ignored in the computation of Loss to be borne by Equity and Preference Shareholders.

2. New Structure of Share Capital after Reorganisation (1.5 marks)

Particulars	`
Equity Shares: 20,000 Equity Shares of ` 45 each fully paid up (` 20,00,000 - ` 11,00,000)	9,00,000
Preference Shares: 10,000, 9% Preference Shares of ` 80 each fully paid up (`10,00,000 - ` 2,00,000)	8,00,000
Total	17,00,000

3. Working Capital of the Reorganized Company: (1.5 marks)

Particulars	`	`
Current Assets:		
Stock	3,00,000	
Debtors	4,00,000	
Cash	1,50,000	8,50,000
Less: Current Liabilities:		
Creditors	3,50,000	
Bank Overdraft (See Note)	75,000	4,25,000
Working capital		4,25,000

Creditors = ` 3,50,000. Hence, balance Bank Overdraft = ` 4,25,000 - ` 3,50,000 = ` 75,000

4. Balance Sheet of Shiva Ltd as on 31st March (after Reconstruction)(4 marks)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES:			
(1)	Shareholders' Funds:			
	Share Capital	1	17,00,000	
(2)	Non-Current Liabilities:			
	Long Term Borrowings - Term Loan with Bank (Secured)		2,25,000	
(3)	Current Liabilities:			
	(a) Short Term Borrowings - Bank Overdraft		75,000	
	(b) Trade Payables - Sundry Creditors		3,50,000	
	Total		23,50,000	
II	ASSETS			
(1)	Non-Current Assets - Fixed Assets: Tangible Assets			
	- Plant & Machinery (Cost 18,00,000 - Deer, under Reconstruction 3,00,000)		15,00,000	
(2)	Current Assets:			
	(a) Inventories - Stock-in-Trade		3,00,000	
	(b) Trade Receivables - Sundry Debtors		4,00,000	
	(c) Cash and Cash Equivalents - Cash on Hand		1,50,000	
	Total		23,50,000	

Note 1: Share Capital (1 mark)

Particulars	This Year	Prev. Yr
Authorised: 20,000 Equity Shares of ` 45 each	9,00,000	
10,000 9% Preference Shares of `80 each	8,00,000	
Issued, Subscribed & Paid up: 20,000 Equity Shares of ` 45 each	9,00,000	
10,000 9% Preference Shares of ` 80 each	8,00,000	
Total	17,00,000	

Question 3

A) 1. Basic Information

Company Status	Dates	Holding Status
Holding Co. = Arjuna Subsidiary = Kanteeba	Acquisition: SKanteeba's Incorporation Consolidation: 31st March	Holding Company = 80% Minority Interest = 20%

2. Analysis of General Reserves of Kanteeba Ltd

Since Arjuna holds shares in Kanteeba since its incorporation, the entire Reserve balance ` 50,000 will be Revenue.

3. Consolidation of Balances (2 marks)

Holding - 80%, Minority - 20%	Total	Minority Interest	Pre-Acqn.	Post Acqn. General Reserve
Equity Capital	2,00,000	40,000	1,60,000	-
General Reserves	50,000	10,000	-	40,000
Total [Cr]			1,60,000	40,000
Cost of Investment [Dr.]			(1,60,000)	—
Parent's Balances			-	50,000
For Consolidated Balance Sheet			NIL	90,000'

4. Consolidated Balance Sheet of Arjuna Ltd and its Subsidiary Kanteeba Ltd as on 31st March (6 marks)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	3,00,000	

	(b) Reserves & Surplus - General Reserve		90,000	
(2)	Minority Interest		50,000	
(3)	Non-Current Liabilities			
	Long Term Borrowings - 8% Debentures (1,00,000 + 50,000)		1,50,000	
(4)	Current Liabilities: Trade Payables, i.e. Creditors (50,000 + 50,000)		1,00,000	
	Total		6,90,000	
II	ASSETS			
(1)	Non-Current Assets			
	Fixed Assets: -Tangible Assets (2,00,000 + 1,50,000)		3,50,000	
(2)	Current Assets			
	(a) Inventories = 80,000 + 1,00,000		1,80,000	
	(b) Trade Receivables - Debtors (40,000 + 70,000)		1,10,000	
	(c) Cash & Cash Equivalents = 20,000 + 30,000		50,000	
	Total		6,90,000	

Notes to the Balance Sheet: Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: …….. Equity Shares of ` 10 each		
Issued, Subscribed & Paid up: 30,000 Equity Shares of ` 10 each	3,00,000	

B) Part (i): Bills for Collection - Asset and Liability A/c

1. Bills for Collection (Asset) A/c (1.5 marks)

Particulars	`	Particulars	`
To Balance b/d (as on 01.04.2017)	28,00,000	By Bills for Collection (Liability) A/c	1,88,00,000
To Bills for Collection (Liability) A/c	2,58,00,000	By Bills for Collection (Liability) A/c	22,00,000
		By balance c/d (as on 31.3.2018) (bal. fig.)	76,00,000
Total	2,86,00,000	Total	2,86,00,000

2. Bills for Collection (Liability) A/c (1.5 marks)

Particulars	`	Particulars	`
To Bills for Collection (Asset)A/c	1,88,00,000	By balance b/d (as on 01.04.2017)	28,00,000
To Bills for Collection (Asset)A/c	22,00,000	By Bills for Collection (Asset) A/c	2,58,00,000
To balance c/d (as on 31.3.2018) (bal. fig.)	76,00,000		
Total	2,86,00,000	Total	2,86,00,000

Part (ii): Acceptances, Endorsements, etc.

Acceptances, Endorsements and Other Obligations Account (in General Ledger) (` in Lakhs) (3 marks)

Date	Particulars	Amt	Date	Particulars	Amt
2017-18	To Constituents' Liabilities for Acceptances / Guarantees etc. (Paid off by Clients)	40	01.04.17	By balance b/d	58
2017-18	To Constituents Liabilities for Acceptances / Guarantees etc. (Honoured by Bank)	100	2017-18	By Constituent's Liabilities for acceptance / guarantees, etc.	176
2017-18	To Constituents Liabilities for Acceptances / Guarantees etc. (Honored by Bank on Party's failure to pay)	4			
31.03.18	To balance c/d - Acceptance not yet satisfied [shown as Contingent Liability]	90			
	Total	234		Total	234

Part (iii): Valuation of Security and Classification of Asset

1. For Classification of Assets as Secured, the Realizable Value of the Security should be taken on realistic basis.
2. The Stock Prices on 30th Sep and 31 Mar, i.e. half-year end, and B/s date are comparatively higher. It is also given that the fall in price in Jan is due to fluctuations.
3. Value of the Security for the Loan as on 31.03.2018 = 40,000 fully paid shares x ? 96 = ? 38,40,000, which is more than the Loan amount of ? 24,00,000.
4. Hence, the Loan may be classified as Secured Loan by the Banking Company.

Part (iv): Rebate on Bills Discounted

1. Rebate on Bills Discounted Account (1 mark)

Date	Particulars	`	Date	Particulars	`
01.04.2017 31.03.2018	To Interest and Discount A/c To balance c/d	80,000 56,000	01.04.2017 31.03.2018	By balance b/d By Interest and Discount A/c (Rebate Required at year-end)	80,000 56,000
	Total	1,36,000		Total	1,36,000

2. Interest and Discount Account (1 mark)

Date	Particulars	`	Date	Particulars	`
31.03.2018 31.03.2018	To Rebate on Bills To Profit8iLoss A/c(bal. fig.) (Income for the year)	56,000 3,92,24,000	01.04.2017 31.03.2018	By Rebate on Bills Discounted (Opening Balance) By Cash and Sundries	80,000 3,92,00,000
	Total	3,92,80,000		Total	3,92,80,000

Question 4

A) (2 marks for each)

Asset Funded	Period Overdue	Provisioning Norms	Provision
LCD Television	4 months	Upto 12 Months - Nil	Nil
Washing Machines	For 16 Months	12 months to 24 months - 10% of Net Book Value	2,410 x 10% = 241.00
Refrigerator	For 36 Months	24 months to 36 months - 40% of Net Book Value	1,280 x 40% = 512.00
Air Conditioners	For 48 Months	36 months to 48 months - 70% of Net Book Value	647 x 70% = 452.90
Total Provision			1,205.90

B) (

Particulars			Year 1	Year 2	Year 3
1.	Assets:	Net Fixed Assets (Book Value assumed as Fair Value)	1,104	1,212	1,311
		Trade Investment (Book Value taken as Market Value)	112	127	140
		Current Assets (Book Value taken as realisable)	715	1,015	1,112
Total Operating Assets			1931	2,354	2,563
2.	Liabilities:	10% Debentures	550	750	950
		14.5% Term Loan	250	300	350
		Bank Overdraft	100	80	60
		Sundry Creditors	75	185	212
		Provision for Taxation	40	50	55
Total External Liabilities			1,015	1,365	1,627
3.	Capital Employed (1-2)(6 marks)		916	989	936
4.	Average Capital Employed (Year 2) = $\frac{916+989}{2}$, (Year 3) = $\frac{989+936}{2}$ (2 marks)			952.5	962.5

Note: Capital Employed can also be calculated through the Liabilities Route, i.e. Share Capital + Reserves and Surplus Less Non-Trade Investments Less Discount on Issue of Shares.

Question 5

Note: Since Fixed Assets are revalued by providing Arrears of Depreciation, the absorption is accounted under the Purchase Method, in the books of Purchasing Company.

1. Computation of Net Worth, Intrinsic Value and Purchase Consideration (2.5 marks)

Particulars	Gowri Ltd	Ambika Ltd
Share Capital	50,00,000	80,00,000
Capital Reserve	10,00,000	-
General Reserve	36,00,000	1,00,00,000
Total of Capital and Reserves	96,00,000	1,80,00,000
Less: Goodwill considered valueless	(2,00,000)	-
Arrears of Depreciation to be provided for	(4,00,000)	-

Balance Tangible Net Worth	90,00,000	1,80,00,000
Number of Equity Shares (Share Capital ÷ ` 100, ` 10 respectively)	50,000	8,00,000
Intrinsic Value per Share	` 180.00	` 22.50

Exchange Ratio:

(a) Number of Shares to be issued by Ambika Ltd to Gowri Ltd = $\frac{`\,90{,}000}{`\,20.50\ per\ share}$ = 4,00,000 shares.

(b) Manner of Issue = 4,00,000 Shares of ` 10 FV, issued at ` 12.50 Premium.

(c) Exchange Ratio = 4,00,000 Shares of Ambika Ltd for 50,000 Shares of Gowri Ltd, i.e. 8 Shares of Ambika Ltd for every Share of Gowri Ltd.

Note: Tangible Net Worth can also be computed as Net Tangible Assets Less External Liabilities, i.e. Net Assets Taken Over. However, in this Illustration, the "Liability Route" for computing the Intrinsic Value is considered.

2. Journal Entries in the books of Gowri Ltd (3.5 marks)

S.No.	Particulars		Dr.(?)	Cr. (?)
1.	Realisation A/c	Dr.	1,71,00,000	
	To Fixed Assets A/c			83,00,000
	To Current Assets A/c			69,00,000
	To Investment A/c			17,00,000
	To Goodwill A/c			2,00,000
	(Being transfer of Sundry assets to Realisation A/c on sale of business)			
2.	Unsecured Loans A/c	Dr.	22,00,000	
	Sundry Creditors A/c	Dr.	42,00,000	
	Provision for Taxation A/c	Dr.	11,00,000	
	To Realisation A/c			75,00,000
	(Being transfer of Sundry Liabilities to Realisation A/c, on sale of business)			
3.	Ambika Ltd A/c	Dr.	90,00,000	
	To Realisation A/c			90,00,000
	(Being Purchase Consideration due under the agreement)			
4.	Shares in Ambika Ltd A/c	Dr.	90,00,000	
	To Ambika Ltd A/c			90,00,000
	(Being Shares received against Purchase Consideration due)			
5.	General Reserve A/c	Dr.	36,00,000	
	Capital Reserve A/c	Dr.	10,00,000	
	To Sundry Shareholders A/c			46,00,000
	(Being transfer of General Reserve and Capital Reserve to Sundry Shareholders)			
6.	Sundry Shareholders A/c	Dr.	6,00,000	
	To Realisation A/c			6,00,000
	(Being Loss on Realisation transferred, i.e. Net Effect of JE 1, 2 & 3)			
6.	Share Capital A/c	Dr.	50,00,000	
	To Sundry Shareholders A/c			50,00,000
	(Being transfer of Share Capital to Sundry Shareholders' A/c)			
7.	Sundry Shareholders A/c	Dr.	90,00,000	
	To Shares in Ambika Ld A/c			90,00,000
	(Being distribution of Shares in Ambika Ltd among the Shareholders)			

(3 – 3 marks, 4- 4 marks, 5 – 3 marks)

3. Journal Entries in the books of Ambika Ltd

S.No.	Particulars		Dr.(₹)	Cr. (₹)
1.	Business Purchase A/c	Dr.	90,00,000	
	To Liquidator of Gowri Ltd A/c			90,00,000
	(Being Purchase Consideration due as per agreement)			
2.	Fixed Assets A/c	Dr.	79,00,000	
	Current Assets A/c	Dr.	69,00,000	
	Investments A/c	Dr.	17,00,000	
	To Unsecured Loans A/c			22,00,000
	To Sundry Creditors A/c			42,00,000
	To Provision for Taxation A/c			11,00,000
	To Business Purchase A/c			90,00,000
	(Being assets and liabilities taken over from Gowri Ltd as per agreement dated...)			
3.	Liquidator of Gowri Ltd A/c	Dr.	90,00,000	
	To Equity Share Capital A/c			40,00,000
	To Securities Premium A/c			50,00,000
	(Being issue of 4,00,000 Shares of ₹ 10 each issued at Premium of ₹ 12.50 each, to the Liquidator of Gowri Ltd in settlement of Purchase Consideration)			

4. Balance Sheet of Ambika Ltd as at 31st March (after Absorption)

	Particulars as at 31st March			Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capital			1	1,20,00,000	
	(b) Reserves and Surplus			2	1,60,00,000	
(2)	**Non-Current Liabilities:**					
	Long Term Borrowings			3	62,00,000	
(3)	**Current Liabilities:**					
	(a) Trade Payables	Creditors	(42,00,000 + 46,00,000)		88,00,000	
	(b) Short Term Provisions	Provision for Taxation	(11,00,000 + 52,00,000)		63,00,000	
	Total				**4,93,00,000**	
II	**ASSETS**					
(1)	**Non-Current Assets**					
	(a) Fixed Assets: Tangible Assets		(79,00,000 + 1,60,00,000)		2,39,00,000	
	(b) Non – Current Investments				17,00,000	
(2)	**Current Assets**		(69,00,000 + 1,68,00,000)		2,37,00,000	
	Total				**4,93,00,000**	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: ...... Equity Shares of ₹ 10 each		
Issued, Subscribed & Paid up: 12,00,000 Equity Shares of ₹ 10 each	1,20,00,000	
(Of the above, 4,00,000 Shares were issued for non-cash consideration)		
Total	**1,20,00,000**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Yr
(a) Securities Premium Reserve	50,00,000	
(b) Other Reserve	1,00,00,000	
(c) Surplus (P & L A/c with Proposed Dividend added back)	10,00,000	
Total	**1,60,00,000**	

Note: The amount, % and per Share Dividend shall be disclosed as a Footnote to the Balance Sheet.

Note 3: Long Term Borrowings

Particulars	This Year	Prev. Yr
(a) Secured Loans	40,00,000	
(b) Unsecured Loans	22,00,000	
Total	**62,00,000**	

Question 6

A) (5 marks for journal entries)

Solution: **Journal Entries** **(in ₹ Lakhs)**

	Particulars		Dr.	Cr.
1	Preference Share Capital A/c	Dr.	20	
	Premium on Redemption of Preference Shares A/c	Dr.	2	
	To Preference Shareholders A/c			22
	(Being amount due on Redemption of Pref.Shares at 10% Premium)			
2	Securities Premium A/c	Dr.	2	
	To Premium on Redemption of Preference Shares A/c.			2
	(Being Premium on redemption provided from Securities Premium A/c)			
3	Preference Shareholders A/c	Dr.	22	
	To Bank A/c			22
	(Being redemption amount paid to Preference Shareholders.)			
4	Revenue Reserves A/c	Dr.	20	
	To Capital Redemption Reserve A/c			20
	(Being Nominal Value of Preference Shares redeemed transferred to Cap.Redemption Reserve)			
5	Equity Share Capital A/c (3,00,000 × 10)	Dr.	30	
	Premium on Buyback A/c (3,00,000 × 20)	Dr.	60	
	To Equity Shareholders A/c			90
	(Being amount due on Buy Back of Equity Shares)			
6	Securities Premium A/c	Dr.	60	
	To Premium on Buyback A/c			60
	(Being Premium on Redemption provided out of Securities Premium & Revenue Reserves)			
7	Equity Shareholders A/c	Dr.	90	
	To Bank A/c			90
	(Being Buyback Amount paid to Equity Shareholders.)			
8	Revenue Reserves A/c	Dr.	30	
	To Capital Redemption Reserve A/c			30
	(Being transfer to Capital Redemption Reserve on account of Shares bought back)			
9	10% Debentures A/c	Dr.	2.20	
	To Investment in Own Debentures A/c			2.00
	To Capital Reserve A/c			0.20
	(Being 10% Debentures cancelled against Own Debentures)			

	Particulars	Dr.	Cr.
10	Bank A/c (50,000 Shares × ₹ 20) Dr.	10	
	Employee Share Options Outstanding A/c (50,000 Shares × ₹ 10) Dr.	5	
	To Equity Share Capital A/c (50,000 Shares × ₹ 10)		5
	To Securities Premium A/c (50,000 Shares × ₹ 20)		10
	(Being Options exercised by the Employees and allotment of 50,000 Shares at ₹ 10 each.)		

2.Balance Sheet of Sankar Limited as at 1st April (after above transactions) (in ₹ Lakhs)

	Particulars	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	1	75.00	
	(b) Reserves and Surplus	2	71.20	
(2)	**Non–Current Liabilities:**			
	Long Term Borrowings – Secured Loans – 10% Debentures (4.00 – 2.20)		1.80	
(3)	**Current Liabilities:** – Given 70 less Share Options O/s tfr to R&S 10		60.00	
	Total		**208.00**	
II	**ASSETS**			
(1)	**Non–Current Assets**			
	(a) Fixed Assets		50.00	
	(b) Non–Current Investments (120 – 2)		118.00	
(2)	**Current Assets** (Given 142 – PSC 22 – ESC 90 + ESOP Colln 10)		40.00	
	Total		**208.00**	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: ......Equity Shares of ...... each &......Preference Shares of...... each		
Issued, Subscribed & Paid up: 7,50,000 Equity Shares of ₹ 10 each Fully Paid Up (3,00,000 Equity Shares bought back)	75	
	75	

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year)

Particulars	Opg Bal.	Additions	Deductions	Clg Bal.
Capital Reserve	8	Own Deb. Cancelled = 0.20	–	8.20
Capital Redemption Reserve	–	Tfr from Rev Res = 50	–	50.00
Securities Premium Account	60	ESOP Allotment =10	PSC Redemption Premium = 2 Premium on Buyback = 60	8.00
Share Options O/s Account	10	–	ESOP Allotment =5	5.00
Other Reserve (Rev.Res.)	50		Transfer to CRR 50	–
Total	**128**	**60.20**	**117**	**71.20**

Note: As per Schedule III, Share Options Outstanding Account should be shown under Reserves and Surplus, and not under Current Liabilities. Hence, it is included in the above, and deducted from Current Liabilities.

(2 – 2 marks, notes – 1 mark)

B) (students are required to assume either) (1 – 4 marks, 2 – 4 marks)

Solution:

Note: The Underwriters' Liability can be determined under two possible assumptions –

1. When Benefit of Firm Underwriting is GIVEN to Underwriters
2. When Benefit of Firm Underwriting is NOT GIVEN to Underwriters

1. Underwriter's Liability under Assumption 1 (No. of Shares)
If Benefit of Firm Underwriting is GIVEN to Underwriters

	Particulars	Guha	Vibishana	Hanuman	Total
	Gross Liability	50,000	50,000	50,000	1,50,000
Less:	Marked Applications	(40,000)	(46,000)	(34,000)	(1,20,000)
Less:	Unmarked Applications equally to G&H (given)	(3,500)	–	(3,500)	(7,000)
Less:	Firm Underwriting	(5,000)	(5,000)	(3,000)	(13,000)
	Balance to be taken under Contract	1,500	(1,000)	9,500	10,000
Adjust:	Vibishana's excess transferred to G & H equally	(500)	1,000	(500)	–
	Net Liability **(See Note)**	1,000	–	9,000	10,000
Add:	Firm Underwriting	5,000	5,000	3,000	13,000
	Total Liability = Shares to be taken up by Underwriters	**6,000**	**5,000**	**12,000**	**23,000**
	Amount Due at ₹ 60 for Net Liability	60,000	–	5,40,000	6,00,000
Less:	Underwriting Commission at 5% on Nominal Value	(2,50,000)	(2,50,000)	(2,50,000)	(7,50,000)
	Amount Due from / (Payable to) Underwriters	**(1,90,000)**	**(2,50,000)**	**2,90,000**	**(1,50,000)**

Note: Since Underwriters have already applied for Firm Shares along with the application money due thereon, only balance Net Liability of Shares is considered for Due / Payable purposes.

2. Journal Entries in the books of Ramayan Ltd under Assumption 1

	Particulars		Dr. (₹)	Cr. (₹)
1	Bank A/c	Dr.	84,00,000	
	To Equity Share Application A/c			84,00,000
	(Being amount received at ₹ 60 per Share from Public and Firm Underwriting (45,000 + 51,000 + 37,000 + 7,000) = 1,40,000 Shares)			
2	Guha A/c	Dr.	60,000	
	Hanuman A/c	Dr.	5,40,000	
	To Equity Share Application A/c			6,00,000
	(Being amount due from Underwriters towards their Net Liability)			
3	Equity Share Application A/c	Dr.	90,00,000	
	To Equity Share Capital A/c			90,00,000
	(Being transfer of Share Application money on 1,50,000 Shares at ₹ 60)			
4	Underwriting Commission A/c	Dr.	7,50,000	
	To Guha A/c			2,50,000
	To Vibhishana A/c			2,50,000
	To Hanuman A/c			2,50,000
	(Being Underwriting Commission due at 5%)			
5	Guha A/c	Dr.	1,90,000	
	Vibhishana A/c	Dr.	2,50,000	
	To Bank A/c			4,40,000
	(Being final settlement to Underwriters)			
6	Bank A/c	Dr.	2,90,000	
	To Hanuman A/c			2,90,000
	(Being amount received from Hanuman for Shares, net of commission)			
7	Equity Share Allotment A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			60,00,000
	(Being Allotment Money due on 1,50,000 Shares at ₹ 40 per Share)			
8	Bank A/c	Dr.	60,00,000	
	To Equity Share Allotment A/c			60,00,000
	(Being Allotment Money received from allottees, including Underwriters)			

3. Underwriter's Liability under Assumption 2 (No. of Shares)
If Benefit of Firm Underwriting is NOT GIVEN to Underwriters

(Under this assumption, "Firm Underwriting" is also treated as "Unmarked Applications". Hence, "Unmarked Applications + Firm Underwriting Applications" are apportioned in Gross Liability ratio)

	Particulars	Guha	Vibishana	Hanuman	Total
	Gross Liability	50,000	50,000	50,000	1,50,000
Less:	Marked Applications	(40,000)	(46,000)	(34,000)	(1,20,000)
Less:	Unmarked Applications and Firm Underwriting (7,000 + 13,000) equally to Guha and Hanuman	(10,000)	–	(10,000)	(20,000)
	Net Liability	–	4,000	6,000	10,000
Add:	Firm Underwriting	5,000	5,000	3,000	13,000
Total Liability = Shares to be taken up by Underwriters		5,000	9,000	9,000	23,000
	Amount Due at ₹ 60 for Net Liability	–	2,40,000	3,60,000	6,00,000
Less:	Underwriting Commission at 5% on Nominal Value	(2,50,000)	(2,50,000)	(2,50,000)	(7,50,000)
	Amount Due from / (Payable to) Underwriters	**(2,50,000)**	**(10,000)**	**1,10,000**	**(1,50,000)**

Note: Since Underwriters have already applied for Firm Shares as Unmarked Applications along with the application money due thereon, only balance Net Liability of Shares is considered for Due / Payable purposes.

4. Journal Entries in the books of Ramayan Ltd under Assumption 2

	Particulars		Dr. (₹)	Cr. (₹)
1	Bank A/c	Dr.	84,00,000	
	To Equity Share Application A/c			84,00,000
	(Being amount received at ₹ 60 per Share from Public and Firm Underwriting (45,000 + 51,000 + 37,000 + 7,000) = 1,40,000 Shares)			
2	Vibhishana A/c	Dr.	2,40,000	
	Hanuman A/c	Dr.	3,60,000	
	To Equity Share Application A/c			6,00,000
	(Being amount due from Underwriters towards their Net Liability)			
3	Equity Share Application A/c	Dr.	90,00,000	
	To Equity Share Capital A/c			90,00,000
	(Being transfer of Share Application money on 1,50,000 Shares at ₹ 60)			
4	Underwriting Commission A/c	Dr.	7,50,000	
	To Guha A/c			2,50,000
	To Vibhishana A/c			2,50,000
	To Hanuman A/c			2,50,000
	(Being Underwriting Commission due at 5%)			
5	Guha A/c	Dr.	2,50,000	
	Vibhishana A/c	Dr.	10,000	
	To Bank A/c			2,60,000
	(Being final settlement to Underwriters)			
6	Bank A/c	Dr.	1,10,000	
	To Hanuman A/c			1,10,000
	(Being amount received from Hanuman for Shares, net of Commission)			
7	Equity Share Allotment A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			60,00,000
	(Being Allotment Money due on 1,50,000 Shares at ₹ 40 per share)			
8	Bank A/c	Dr.	60,00,000	
	To Equity Share Allotment A/c			60,00,000
	(Being Allotment Money received from allottees, including Underwriters)			

Question 7

A) 1. Valuation Balance Sheet as on 31st December (1 mark)

Particulars	`	Particulars	`
To Net Liability as per Actuarial Valuation	74,25,000	By Life Fund	86,48,000
To Profit / Surplus on Valuation (balancing figure)	12,23,000		
Total	86,48,000	Total	86,48,000

2. Distribution Statement (3 marks)

Particulars	`
Profit as per Valuation Balance Sheet	12,23,000
Add: Interim Bonus Paid	1,48,000
Profit made during the Year	13,71,000
Add: Balance brought forward from previous year	8,50,000
Total Profit	22,21,000
Less: Surplus to be carried forward	(9,31,000)
Amount available for Distribution	12,90,000
Policyholders' Share (12,90,000 x 95%)	12,55,500
Less: Interim Bonus Paid	(1,48,000)
Balance due to Policyholders	10,77,500

B) 1. Computation of Expense to be recognized (1.5 marks)

Particulars	Result
(a) Fair Value of Option per Share = MPS on Grant Date ` 120 less Exercise Price ` 50	` 70
(b) No. of Shares vesting under the Scheme	16,000 Shares
(c) Total Fair Value of Options = 16,000 options x` 70, to be recognised as Expense	` 11,20,000

2. Journal Entry for ESOP (2.5 marks)

Particulars		Dr.(`)	Cr. (`)
Bank A/c (16,000 Shares x ` 50)	Dr.	8,00,000	
Employees' Compensation Expense A/c (16,000 Shares x ` 70)	Dr.	11,20,000	
To Equity Share Capital A/c (16,000 Shares x ` 10)			
To Securities Premium A/c [16,000 Shares x ` (120 - 10)]			1,60,000
(Being 16,000 Shares allotted to Employees under ESOP at a Premium of ? 110 per Share)			17,60,000

C) (1- 6 marks, 2 – 2 marks)

Solution:

1. Liquidator's Final Statement of Account

Receipts		₹	Payments	₹
Sundry Assets Realized:			– **Liquidator's Remuneration** (23,00,000 × 2%)	46,000
Book Debts	6,60,000		– **Liquidator's Expenses**	86,000
Stock-in-Trade	3,10,000		– **Debentureholders:**	
Land & Building	6,20,000		Face Value of Debentures	2,10,000
Plant & Machinery	7,10,000	23,00,000	Debenture Interest for 1 year at 10% (**Note**)	21,000
Calls on Contributories:			– **Preferential Creditors:**	
Call Money on 5,000 ₹ 50 paid		10,000	As given in Balance Sheet	1,05,000
Equity Shares at ₹ 2 per Share			Income Tax Liability (given)	67,000
			– **Unsecured Creditors:**	
			Bank Overdraft (assumed Unsecured)	4,85,000
			Trade Creditors	6,00,000
			– **Preference Shareholders:**	
			Preference Capital	5,00,000
			Arrears of Dividend (5,00,000 × 10% × 3yrs)	1,50,000
			– **Equity Shareholders** Refund on 5,000 Shares	
			₹ 60 paid up, at ₹ 8 per Share	40,000
Total		**23,10,000**	**Total**	**23,10,000**

Note: As the Company is solvent, Interest on Debentures will have to be paid upto the date of final settlement, i.e. for 1 year from B/s date, i.e. ₹ 2,10,000 × 10% × 1 year = **₹ 21,000.**

2. Calls from Holders of Partly Paid Shares

Particulars	₹
(a) Total of Receipts before considering Call Money (from the above account Dr. Side)	23,00,000
(b) Total Payments before final payment to Equity Shares (46,000 + 86,000 + 2,10,000 + 21,000 + 1,05,000 + 67,000 + 4,85,000 + 6,00,000 + 5,00,000 + 1,50,000)	22,70,000
(c) **Surplus / (Deficit) from above Calls made on Equity Shares (a – b)**	30,000
(d) Notional Call on 5,000 Partly Paid Shares at ₹ 10 each (to make all Shares ₹ 60 Paid up)	50,000
(e) Surplus Cash Balance after Notional Call **(c + d)**	**80,000**
(f) Number of Shares deemed paid at ₹ 60 per Share (5,000 + 5,000)	10,000
(g) Hence, Refund on every ₹ 60 Paid up Share **(e ÷ f)** = ₹ 80,750 ÷ 10,000 Shares	₹ 8.00
(h)So, **Required Call on ₹ 50 paid up Share** (₹ 10 Notional Call – ₹ 8 Refund)	**₹ 2**