SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- ADVANCED ACCOUNTS

Test Code - CIM 8405

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER 1(A)

Presentation of MAT credit in the financial statements:

Balance Sheet: Where a company recognizes MAT credit as an asset on the basis of the considerations specified in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961, the same should be presented under the head 'Loans and Advances' since, 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 paragraph 11 of the Guidance Note.

Profit and Loss Account: According to explanation given for paragraph 21 of Accounting Standard 22, "Accounting for Taxes on Income" in the context of Section 115JB of the Income-tax Act, 1961, MAT is the current tax. Accordingly, the tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the statement of profit and loss 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 this Guidance Note, the said asset should be created by way of a credit to the statement of profit and loss and presented as a separate line item therein.

(5 MARKS)

ANSWER 1(B)

Following will be the treatment in the given cases:

(i) When sale price of Rs. 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of Rs.4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is Rs. 20 lakhs & sale price is Rs. 24 lakhs then profit of Rs. 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is Rs. 22 lakhs & sale price is Rs. 25 lakhs, profit of Rs. 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of Rs.3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is Rs. 25 lakhs & sale price is Rs. 18 lakhs, then loss of Rs. 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is Rs. 18 lakhs & sale price is Rs. 19 lakhs, then the loss of Rs. 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of Rs. 1 lakhs (19-18) should be amortised/deferred over lease period.

(5 MARKS)

ANSWER 1(C)

Journal Entries in the books of Suvidhi Ltd.

Date	*Particulars*	*Dr. (Rs.)*	*Cr. (Rs.)*
31.3.18	Bank A/c (60,000 shares x Rs. 30) Dr.	18,00,000	
	Employees stock compensation expense A/c Dr.	4,80,000	
	To Share Capital A/c (60,000 shares x Rs. 10)		6,00,000

	To Securities Premium (60,000 shares x Rs. 28) (Being shares issued under ESOP @ Rs. 30 to 1,200 employees)		16,80,000
	Profit & Loss A/c Dr.	4,80,000	
	To Employees stock compensation expense A/c		4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

Working Note:

Fair value of an option = Rs. 38 – Rs. 30 = Rs. 8

Number of shares issued = 1,200 employees x 50 shares/employee = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2017-2018

= 60,000 shares x Rs. 8 = Rs. 4,80,000

Vesting period = 1 year

Expenses recognized in 2017-2018 = Rs. 4,80,000

(5 MARKS)

ANSWER 1(D)

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of Rs. 5 lakhs should not be recognized in the books for the year ended 31 st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of Rs. 5 lakhs as interest amount.

(5 MARKS)

ANSWER 2(A)

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back (applicable only when loan fund is Rs. 3,200 crores)

			Rs. in crores	
			Debit	Credit
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account General	Dr.	400	
	Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve / Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. **Shares Outstanding Test**

Particulars	*(Shares in crores)*
Number of shares outstanding	120
25% of the shares outstanding	30

2. **Resources Test**

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back**

	Particulars	When loan fund is	
		Rs. 3,200 crores	Rs. 6,000 crores
(a)	Loan funds (Rs.)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (Rs.)	2,880	2,880
(d)	Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil

(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4 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

Equation 1 : (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy Back

$= (2{,}880 - x) - 1{,}600 = y$

$= \quad 1280 - x = y \qquad (1)$

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share

$= \left(\frac{y}{30} \times 10\right) = x \quad \text{Or} \quad 3x = y \qquad (2)$

by solving the above two equations we get

x= Rs. 320

y = Rs. 960

(12 MARKS)

ANSWER 2(B)

Statement showing liability of underwriters

a	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000
B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Note: In the above statement, it has been assumed that the benefit of firm underwriting is given to individual underwriter.

Journal Entries

2016 Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ Rs. 2.50 per share)			
March	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			

March	Equity Share Allotment A/c (28,80,000 x Rs. 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000 x Rs. 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x Rs. 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Bank A/c (1,20,000 x Rs. 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x Rs. 5)			6,00,000
	To Securities Premium A/c (1,20,000 x Rs. 0.5)			60,000
	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x Rs. 3]			86,22,000
	To Black (1,20,000 x Rs. 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of Rs. 10.50 for Rs. 30 lakh shares payable to underwriters)			
March	Black A/c	Dr.	6,30,000	
	White A/c	Dr.	6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x Rs. 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x Rs. 5)			30,000
	(Being the reissue of 6,000 shares @ Rs. 4 as Rs. 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

(8 MARKS)

ANSWER 3

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2017

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) Fixed assets		
(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

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.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	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.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H. Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2016

	Rs.
Machinery	
Revaluation as on 1.4.2016	3,00,000
Less: Book value as on 1.4.2016	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2016	30,000
Less: Book value as on 1.4.2016	(40,000)
Loss on revaluation	(10,000)

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

3. Analysis of reserves and profits of S Ltd. as on 31.03.2017

	Pre-acquisition profit upto 1.4.2016	*Post-acquisition profits (1.4.2016 – 31.3.2017)*	
	(Capital profits)	*General Reserve*	*Profit and loss account*
General reserve as on 31.3.2017	50,000	1,05,000	
Profit and loss account as on 31.3.2017	30,000		35,000
Upward Revaluation of machinery as on 1.4.2016	1,00,000		
Downward Revaluation of Furniture as on 1.4.2016	(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

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

** considered that Rs. 55,000 is cost to H Ltd. Alternative solution considering it as cost to S Ltd. is also possible*

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

(20 MARKS)

ANSWER 4(A)

(i) In the books of Lili Ltd.
Journal Entries

				Dr.	*Cr.*
	2017			*Rs.*	*Rs.*
1.	March 31	Equity Share Capital A/c (Rs.10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (Rs.7)			2,10,000
		(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (Rs. 10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (Rs. 5)			2,00,000
		(Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			
3.		Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
		Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
		To Equity Share Capital A/c (21,000 x Rs. 10)			2,10,000
		To Preference Share Capital A/c (20,000 x Rs.10)			2,00,000
		(Being post reduction, both classes of shares reconsolidated into Rs.10 each) s			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 – 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000
		To Capital Reduction Account			90,000

		(2,10,000 – 1,20,000) (Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)			
9.		Capital Reduction Account To Cash Account (Being contingent liability of Rs.54,000 paid)	Dr.	54,000	 54,000
10.		Cash Account To Capital Reduction Account (Being pending insurance claim received)	Dr.	12,500	 12,500
11.		Capital Reduction Account To Trademarks and Patents To Goodwill A/c To Raw materials & Packing materials To Trade receivables A/c (Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)	Dr.	1,68,100	 1,10,000 36,100 10,000 12,000
12.		Cash Account To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)	Dr.	1,26,000	 1,26,000
13.		Bank Overdraft Account To Cash Account (Being cash balance utilized to pay off bank overdraft)	Dr.	2,23,100	 2,23,100
14.		Capital Reduction Account To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)	Dr.	1,28,400	 1,28,400

(ii) **Capital Reduction Account**

Particulars		*Rs.*	*Particulars*		*Rs.*
To	Equity share capital	32,000	By	Preference share capital	2,00,000
To	Cash (contingent liabilitysettled)	54,000	By	Equity share capital	90,000
To	Trademarks and Patents	1,10,000	By	Freehold land	90,000
To	Goodwill	36,100	By	Cash (insurance claim)	12,500
To	Raw material and Packing materials	10,000			
To	Trade receivables	12,000			
To	Cash account	10,000			
To	Capital reserve account	1,28,400			
		3,92,500			3,92,500

(iii) **Cash Account**

Particulars			*Rs.*	*Particulars*		*Rs.*
To		Investment	64,000	By	Capital reduction	54,000

To		9% Debenture holders			(Contingent liability)	
		(2,10,000-1,25,400)	84,600	By	Expenses	10,000
To		Capital reduction (insurance claim)	12,500	By	Temporary bank overdraft - From available cash (64,000+84,600+12,500 -54,000-10,000) 97,100	
To		Equity share capital 12,600 shares @ Rs.10 each	<u>1,26,000</u>		- From proceeds of equity share capital (2,23,100– 97,100) <u>1,26,000</u>	<u>2,23,100</u>
			<u>2,87,100</u>			<u>2,87,100</u>

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

(15 MARKS)

ANSWER 4(B)

Computation of capital employed

				(Rs. in lakhs)
		31.3.14		*31.3.15*
Total Assets as per Balance Sheet		38,00		40,40
Less: Non-trade Investments		<u>(75)</u>		<u>(1,50)</u>
		37,25		38,90
Less: Outside Liabilities:				
12% Debentures	2,00		2,00	
18% Term Loan	3,00		3,20	
Cash Credit	1,20		80	
Trade payables	70		60	
Tax Provision	<u>30</u>	<u>7,20</u>	<u>40</u>	<u>7,00</u>
Capital employed		<u>30,05</u>		<u>31,90</u>

Average capital employed = $\frac{\text{30,05 lakhs+31,90 lakhs}}{2}$ = Rs. 3,097.5 lakhs.

(5 MARKS)

ANSWER 5(A)

TOP Bank Limited

Profit and Loss Account for the year ended 31st March, 2017

		Schedule	*Year ended 31.03.2017*
			(Rs. *in '000s)*
I.	**Income:**		
	Interest earned	13	5923.18
	Other income	14	<u>728.00</u>
	Total		<u>6,651.18</u>

II.	**Expenditure**		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		2,070.00
	Total		6,098.38
IIII.	**Profits/Losses**		
	Net profit for the year		552.80
	Profit brought forward		nil
			552.80
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

		Year ended 31.3. 2017 (Rs. in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5923.18
		5923.18
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	3259.92
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(Rs. in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	(25.00)
	5,923.18

(14 MARKS)

ANSWER 5(B)

(i) Net Premium earned

		Rs. In lakhs
Premium from direct business received	4,400	
Add: Receivable as 31.03.16	189	
Less: Receivable as on 01.04.2015	(220)	4,369
Add: Premium on re-insurance accepted	376	
Add: Receivable as on 31.03.16	16	
Less: Receivable as on 01.04.2015	(18)	374
		4,743
Less: Premium on re-insurance ceded	305	
Add: Payable as on 31.03.16	9	
Less: Payable as on 01.04.15	(14)	(300)
Net Premium earned		4,443

(ii) Net Claims incurred

		Rs. In lakhs
Claims paid on direct business		3,450
Add: Reinsurance	277	
Add: Reinsurance outstanding as 31.03.16	6	
Less: Reinsurance outstanding as on 01.04.2015	(8)	275
Less: Claims Received from re-insurance	101	
Add: Receivable as on 31.03.16	19	
Less: Receivable as on 01.04.2015	(20)	100
		3,625
Add: Outstanding direct claims at the end of the year		48
		3,673
Less: Outstanding Claims at the beginning of the year		(45)
Net Claims Incurred		3,628

(6 MARKS)

ANSWER 6(A)

The Seventh Schedule of SEBI (Mutual funds) Regulations, 1996 states that a mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of Asset Management Company.

It also states that a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by an authorized credit rating agency. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of Asset Management Company.

Accordingly, if the debts instruments of Zed Ltd. are unrated then Mutual Fund Asset Management Company (AMC) cannot invest more than 10% of its NAV in those instruments. If the debts instruments of Zed Ltd. are rated, even then, Mutual Fund Asset Management Company cannot invest more than 12% of its NAV in those instruments. Therefore, investment of 25% of its NAV of the scheme in debts instrument of Zed Ltd. by Mutual Fund Asset Management Company is not permissible as per the SEBI (Mutual Fund) Regulations, 1996.

(5 marks)

ANSWER 6(B)

Schedule III to the companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Sagar Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Sagar Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

(5 marks)

ANSWER 6(C)

Calculation of Basic Earning Per Share

$$\textbf{Basic EPS} = \frac{\text{Net Profit for the current year}}{\text{No. of Equity Shares}}$$

$$= \frac{2,50,00,000}{50,00,000}$$

Basic EPS per share = ₹5

Calculation of Diluted Earning Per Share

$$\textbf{Diluted EPS} = \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average no. of Equity Shares}}$$

Adjusted net profit for the current year	Rs.
Net profit for the current year	2,50,00,000
Add: Interest expenses for the current year	6,00,000
Less: Tax saving relating to Tax Expenses	(1,80,000)
	2,54,20,000

No. of equity shares resulting from conversion of debentures: 4,00,000 Shares

Weighted average no. of equity shares used to compute diluted EPS: (50,00,000 + 4,00,000) = 54,00,000 Equity Shares

Diluted earnings per share: (2,54,20,000/54,00,000) = Rs. 4.71 (Approx.)

(5 marks)

ANSWER 6(D)

Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a paripassu change in favor of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realied X Workman's Dues}}{\text{Workman's Dues } + \text{Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{4{,}00{,}00{,}000 \text{ X } 1{,}25{,}00{,}000}{1{,}25{,}00{,}000 + 5{,}00{,}00{,}000}$$

$$4{,}00{,}00{,}000 \text{ X} \frac{1}{5}$$

$$\text{Workman's Share to Secured Assets} = 80{,}00{,}000$$

Amount available to secured creditor is Rs. 400 Lakhs – 80 Lakhs = 320 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

(5 marks)

ANSWER 6(E)

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a **single plan**, is:
  - (1) disposing of substantially in its entirety,
  - (2) disposing of piecemeal, or
  - (3) terminating through abandonment; and
- (ii) that represents a separate major line of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

(5 MARKS)