PAPER – 5 : ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) Expert Limited issued 12% secured debentures of ₹ 100 lakhs on 01.06.2019. Money raised from debentures to be utilized as under:

Intended Purpose	*Amount ₹ in lakhs*
Construction of factory building	*40*
Working Capital	*30*
Purchase of Machinery	*15*
Purchase of Furniture	*2*
Purchase of truck	*13*

Additional Information:

(i) Interest on debentures for the Financial Year 2019-2020 was paid by the Company.

(ii) During the year, the company invested idle fund of ₹ 5 lakhs (out of the money raised from debentures) in Bank's fixed deposit and earned interest of ₹ 50,000.

(iii) In March, 2020 construction of factory building was not completed (it is expected that it will take another 6 months).

(iv) In March 2020, Machinery was installed and ready for its intended use.

(v) Furniture was put to use at the end of March 2020.

(vi) Truck is going to be received in April, 2020.

You are required to show the treatment of interest as per AS 16 in respect of borrowing cost for the year ended 31st March, 2020 in the Books of Expert Limited.

(b) What do you mean by 'Weighted Average number of Equity Shares outstanding during the period' and why is it to be calculated?

In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered :

(i) Equity Shares issued in exchange of cash.

(ii) Equity Shares issued as a result of conversion of a debt instrument.

(iii) Equity shares issued in lieu of interest or principal on other financial instruments.

(iv) Equity shares issued in exchange for the settlement of a liability of the enterprise.

(v) Equity Shares issued as consideration for the acquisition of an assets other than cash.

(vi) Equity Shares issued for rendering of services to the enterprise.

(c) (i) Zinga Limited received a 20% Subsidy on ₹ 100 lakhs for investment in designated backward area during 2016-17. The Subsidy received was credited to General Reserve. During 2019-2020, the company paid dividend out of the amount of Subsidy Received for ₹ 10 lakhs. Is the above treatment done for Subsidy received and Dividend paid is correct ? If not, give correct treatment.

(ii) Singha Limited received a specific grant of ₹ 90 lakhs for acquiring a plant of ₹ 250 lakhs (having useful life of 10 years) during 2016-17. The grant received was credited to deferred income in the Balance Sheet, During 2019-2020, the company could not comply some condition laid down for the grant for plant, it had to refund the whole grant for plant to the Government. Balance in the deferred income on that date was ₹ 63 lakhs and written down value of plant was ₹ 175 lakhs.

You are required to state :

(i) What should be the treatment of the refund of grant in 2019-2020?

(ii) What would be the effect on cost of the fixed asset?

(iii) What amount of depreciation should be charged during the Financial year 2019-2020 ?

(d) State with reason, as per AS-4, How the following events would be dealt with in the financial statements of Nisha Limited for the year ended 31st March, 2020. Date of Board meeting for approving the accounts is 25th April, 2020:

(i) The Board of the directors of the Company has proposed dividend of ₹ 20 lakhs on 4th April, 2020.

(ii) An earthquake destroyed a major warehouse of the Company on April 20, 2020.

(iii) The Company has filed a legal suit against one debtor from whom ₹ 25 lakh is recoverable as on 31.3.2020. As per legal opinion received by the counsel on 15th April, 2020, the chances of recovery by way of legal suit are not good.

(iv) The cashier of the Company embezzled cash of ₹ 9 lakhs fraudulently in January, 2020 and returned back ₹ 5 lakhs in February, 2020. The same was detected on 5th April, 2020. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) According to AS 16 "Borrowing Costs", a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. As per the Standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. The amount of borrowing costs eligible for capitalization should be determined in accordance with this Standard. Other borrowing costs should be recognized as an expense in the period in which they are incurred. It also states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost = ₹10,00,000 (100 lakhs x 12% x 10/12) – ₹ 50,000 = ₹ 9,50,000

Particulars	**Nature of assets**	**Interest to be capitalized (₹)**	**Interest to be charged to Profit & Loss Account (₹)**
Construction of factory building	Qualifying Asset	9,50,000x40/100 = ₹ 3,80,000	NIL
Purchase of Machinery	Not a Qualifying Asset	NIL	9,50,000x15/100 = 1,42,500
Purchase of and furniture	Not a Qualifying Asset	NIL	9,50,000x2/100 =19,000
Purchase of truck	Not a Qualifying Asset	NIL	9,50,000x13/100 = 1,23,500
Working Capital	Not a Qualifying Asset	NIL	9,50,000x30/100 = ₹ 2,85,000
Total		₹ 3,80,000	₹ 5,70,000

(b) As per AS 20, “Earnings Per Share”, the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders’ capital may have varied during the period as a result of a larger or lesser number of shares outstanding at any time.

For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

The following dates should be considered for consideration of weights for the purpose of calculation of weighted average number of shares in the given situations:

(i) Date of Cash receivable

(ii) Date of conversion

(iii) Date when interest ceases to accrue

(iv) Date on which settlement becomes effective

(v) Date on which the acquisition is recognized.

(vi) When the services are rendered

(c) **(i)** As per AS 12 'Accounting for Government Grants', when government grant is received for a specific purpose, it should be utilized for the same. So the grant received for investment in backward area cannot be credited to General Reserve and is not available for distribution of dividend.

(ii) (i) As per AS12, 'Accounting for Government Grants', the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement In this case the grant refunded is ₹90 lakhs and balance in deferred income is ₹ 63 lakhs, ₹ 27 lakhs shall be charged to the profit and loss account for the year 2019-20.

(ii) There will be no effect on the cost of the fixed asset

(iii) Depreciation charged will be on the same basis as charged in the earlier years. Hence charged during the year 2019-20 shall be ₹ 25 lakhs (175 years /7 years).

(d) **(i)** If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognize those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes. No liability for proposed dividends has to be created and no adjustment to be made in financial statements for year ended 31st March, 2020. Such proposed dividends are to be disclosed in the notes to the financial statements as per the Companies (Accounting Standards) Amendment Rules, 2016.

(ii) AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2020. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2019-2020. The Report of the Directors for 2019-20 should disclose the fact of earthquake together with an estimate of loss on earthquake. If no estimate of loss can be made, the report should state that loss on earthquake could not be estimated.

(iii) As per para 13 of 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, company should make the provision for doubtful debts, as legal suit has been filed on 31st March, 2020 and the chances of recovery from the suit are not good. Though, the actual result of legal suit will be known in future yet situation of non-recovery from the debtors exists before finalization of financial statements. Therefore, provision for doubtful debts should be made for the year ended on 31st March, 2020.

(iv) As per paragraph 13 of AS 4 (revised) 'Contingencies and Events occurring after the Balance Sheet Date', an event occurring after the balance sheet date may require adjustment to the reported values of assets, liabilities, expenses or incomes. As the fraud of the accounting period is detected after the balance sheet date but before approval of the financial statements, it is necessary to recognize the loss amounting ₹4,00,000 (9,00,000 less 5,00,000) and adjust the accounts of the company for the year ended 31st March, 2020.

Question 2

U and V were in partnership with sharing of profit and loss equally. The firm's Balance sheet as at 31/12/2019 (for 9 months) was:

Liabilities		*Assets*	
Partners' Capital Accounts:		*Plant*	*1,85,000*
		Building	*1,00,000*
U 1,50,000		*Debtors*	*85,000*
		Stock	*56,000*
V 1,80,000	*3,30,000*	*Profit & Loss A/c*	*60,000*
Sundry Creditors	*90,000*	*Partners' Drawings Accounts:*	
Bank Overdraft	*83,000*	*U 8,000*	
		V 9,000	*17,000*
Total	*5,03,000*	*Total*	*5,03,000*

The operations of the business were carried on till 31/03/2020. U and V both withdrew in equal amount half the amount of profit made during the current period of three months after charging depreciation of ₹ 5,000 on plant and after writing off 5% of building.

During the current period of three months, creditors were reduced by ₹ 50,000 and bank overdraft by ₹ 50,000.

The stock was valued at ₹ 24,000 and debtors at ₹ 40,500 on 31st March, 2020. The other items remained the same as at 31/12/2019.

On 31/03/2020, the firm sold its business to UV Limited. The value of goodwill was estimated at ₹ 1,84,000 and the remaining assets were valued on the basis of the balance sheet as on 31/03/2020 except building and stock, which were valued as below:

Building ₹ 1,20,000

Stock ₹ 36,000

UV Limited paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare: (with necessary working notes)

(i) Balance sheet of the firm as at 31/03/2020.

(ii) Realization account and

(iii) Partners' capital accounts showing the final settlement between them. **(16 Marks)**

Answer

(i) Balance Sheet of the Firm as at 31.3.2020

Liabilities	₹	Assets	₹	₹
Capital Accounts:		Plant	1,85,000	
U's capital	1,18,750	Less: Depreciation	(5,000)	1,80,000
V's capital	1,47,750	Building	1,00,000	
Sundry Creditors (90,000 – 50,000)	40,000	Less: Written off	(5,000)	95,000
Bank overdraft (83,000 – 50,000)	33,000	Stock		24,000
		Sundry Debtors		40,500
	3,39,500			3,39,500

(ii) Realization Account

Particulars	₹	Particulars	₹
To Plant A/c	1,80,000	By Sundry Creditors A/c	40,000
To Building A/c	95,000	By Bank Overdraft A/c	33,000
To Stock A/c	24,000	By UV Ltd. A/c (W.N.2)	4,87,500
To Sundry Debtors A/c	40,500		
To U's Capital A/c	1,10,500		
To V's Capital A/c	1,10,500		
	5,60,500		5,60,500

(iii) **Partners' Capital Accounts**

Date	*Particulars*	*U*	*V*	*Date*	*Particulars*	*U*	*V*
		₹	₹			₹	₹
1.1.20	To Profit & Loss A/c	30,000	30,000	1.1.20	By Balance b/d	1,50,000	1,80,000
	To Drawings A/c	8,000	9,000	31.3.20	By Profit (W.N.1)	13,500	13,500
31.3.20	To Drawings (W.N.1)	6,750	6,750				
	Balance c/d	1,18,750	1,47,750				
		1,63,500	1,93,500			1,63,500	1,93,500
30.3.20				31.3.20	By Balance b/d	1,18,750	1,47,750
	To Shares in UV Ltd. A/c	2,29,250	2,58,250	31.3.20	By Realization A/c	1,10,500	1,10,500
		2,29,250	2,58,250			2,29,250	2,58,250

Working Notes:

(1) Ascertainment of profit for the 3 months ended 31st March,2020

	₹	₹
Assets:		
Stock		24,000
Sundry Debtors		40,500
Plant less depreciation		1,80,000
Building less written off		95,000
		3,39,500
Less: Liabilities:		
Sundry Creditors	40,000	
Bank overdraft	33,000	(73,000)
Closing net assets		2,66,500
Less: Opening adjusted capitals		
U (1,50,000 – 30,000 – 8,000)	1,12,000	
V (1,80,000 – 30,000 – 9,000)	1,41,000	2,53,000
Profit net of drawings		13,500
Add: Combined drawings during the 3 months (equal to half of profit) = 13,500 X 2		27,000
Combined drawings for 3 months		13,500

(2) Ascertainment of purchase consideration

	₹	₹
Assets:		
Stock		36,000
Sundry Debtors		40,500
Plant less depreciation		1,80,000
Building less written off		1,20,000
		3,76,500
Less: Liabilities:		
Sundry Creditors	40,000	
Bank overdraft	33,000	(73,000)
Net Assets value taken by UV Ltd.		3,03,500
Add: Goodwill		1,84,000
Purchase Consideration paid by equity shares in UV Ltd. at ₹ 10 each		4,87,500

Question 3

(a) PAY Limited furnishes you with the following summarized Balance Sheet as at 31st March, 2020:

		(₹ in Lakhs)
Liabilities		
Share Capital:		
Authorised		*300*
Issued:		
11% Redeemable preference shares of ₹ 100 each fully paid	*125*	
Equity shares of ₹ 10 each fully paid	*175*	*300*
Reserves and surplus:		
Capital reserve	*35*	
Securities premium	*155*[1]	

[1] *To be read as ₹ 105 lakhs.*

Revenue reserves	*460*	
Profit and loss account	*50*	*650*
Current liabilities and provisions		*50*
		1000
Assets		
Fixed assets: cost	*100*	
Less: Accumulated depreciation	*(90)*	*10*
Non-current investments at cost (Market value ₹ 400 Lakhs)		*200*
Current assets		*790*
		1000

(i) The company redeemed preference shares at a premium of 4% on 1st April, 2020.

(ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2020.

(b) Purvi Limited issues 2,00,000 equity shares of ₹ 10 each at par. The entire issue is underwritten as follows :

Underwriter	*No. of shares Underwritten*	*Firm Underwritten*	*Marked Applications, Including firm Underwriting*
A	*1,20,000*	*16,000*	*36,000*
B	*50,000*	*6,000*	*46,000*
C	*30,000*	*20,000*	*30,000*

Total number of shares applied for were 1,42,000. Ascertain the liability of underwriters in number of Shares.

(i) If Firm Underwriting treated as Marked.

(ii) If Firm Underwriting treated as Unmarked. ***(10 + 6= 16 Marks)***

Answer

(a) (i) Journal entries in the books of PAY Ltd.

₹ in lakhs

	Particulars		*Debit*	*Credit*
1st April, 2020	11% Preference share capital A/c	Dr.	125	
	Premium payable on Redemption of Preference Shares	Dr.	5	
	To Preference shareholders A/c			130
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	130	
	To Bank A/c			130
	(Being payment made to shareholders)			
	Shares buy back A/c	Dr.	100	
	To Bank A/c			100
	(Being 2.5 lakhs equity shares bought back @ ₹40 per share)			
	Equity share capital A/c (2.5 lakh x ₹10)	Dr.	25	
	Premium payable on buy- back A/c (2.5 lakh x ₹ 30)	Dr.	75	
	To Shares buy back A/c			100
	(Being cancellation of shares bought back)			
	Revenue reserve A/c	Dr.	150	
	To Capital Redemption Reserve A/c (125+25)			150
	(Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)			
	Securities Premium	Dr.	80	
	To Premium payable on Redemption of Pref. Shares			5
	To Premium payable on buy- back A/c			75
	(Being premium on preference shares redeemed* and equity shares bought back charged to securities premium account)			

**Securities premium utilized for premium on preference shares redeemed assuming that the company is not governed under section 133 of the Companies Act. Alternatively, it may not be utilized assuming otherwise.*

(ii) Balance Sheet of Pay Ltd as at 1.4.2020

Particulars	*Note No*	*₹ In lakhs*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	150
(b) Reserves and Surplus	2	570
(2) Current Liabilities and Provisions		50
Total		770
II. Assets		
(1) Non-current assets		
(a) Property, plant and Equipment	3	10
(b) Non-current investments - Investment at cost Market value ₹ 400 crores)		200
(2) Current assets	4	560
Total		770

Notes to Accounts

				₹ In lakhs
1.	Share Capital			
	Authorised, Issued and Subscribed:			
	Equity shares of ₹ 10 each			150
2.	Reserves and Surplus			
	Capital reserve		35	
	Capital redemption reserve		150	
	Securities premium	105		
	Less: Utilisation for buy back and redemption of shares	(80)	25	
	Revenue Reserve	460		
	Less: transfer to Capital redemption reserve	(150)	310	
	Profit and Loss Account balance		50	570
3.	Property, plant and equipment			
	Cost		100	
	Less: Provision for depreciation		(90)	10
4.	Current assets			

	Current assets as on 31.3.2020	790	
	Less: Bank payment for redemption and buy back	(230)	560

(b) Computation of liabilities of underwriters (in No. of shares)

(i) If firm underwriting is treated as marked

	A	B	C	Total
No. of shares underwritten – gross liability	1,20,000	50,000	30,000	2,00,000
Less: Firm underwriting	16,000	6,000	20,000	42,000
	1,04,000	44,000	10,000	1,58,000
Less: Marked applications	20,000	40,000	10,000	70,000
	84,000	4,000	-	88,000
Less Unmarked applications (1,42,000 – 1,12,000) in 12:5:3	18,000	7,500	4,500	30,000
	66,000	(3,500)	(4,500)	58,000
Less: Adjustment for surplus of B and C	(8,000)	3,500	4,500	
Total liability (No. of shares)	58,000	-	-	58,000

(ii) If firm underwriting is treated as unmarked

No. of shares	1,20,000	50,000	30,000	2,00,000
Less: Marked applications	20,000	40,000	10,000	70,000
	1,00,000	10,000	20,000	1,30,000
Less Unmarked applications 72,000 in 12:5:3	43,200	18,000	10,800	72,000
	56,800	(8,000)	9,200	58,000
Less: Adjustment for Surplus of B (4:1)	(6,400)	8,000	(1,600)	
Total liability (No. of shares)	50,400	-	7,600	58,000

NOTE: The liability for firm underwritten shares have not been added in the liability given in above answer. Alternative answer including liability for the firm underwritten shares is also possible.

Question 4

Black Limited and White Limited have been carrying their business independently from 01/04/2018. Because of synergy in business, they amalgamated on and from 1st April, 2020 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 are as follows :

Liabilities	Black Ltd. (₹)	White Ltd. (₹)
Share Capital:		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
	30,25,000	27,45,000
Assets		
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000
	30,25,000	27,45,000

Additional Information:

(i) The authorized capital of the new company will be ₹ 50,00,000 divided into 2,00,000 equity shares of ₹ 25 each.

(ii) Trade payables of Black Limited includes ₹ 15,000 due to White Limited and trade receivables of White Limited shows ₹ 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd. (₹)	*White Ltd. (₹)*
Land and Buildings	*5,20,000*	*10,40,000*
Inventory	*1,80,000*	*1,25,000*

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase. ***(16 Marks)***

Answer

Balance Sheet of Grey Ltd. as at 1st April, 2020

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	48,40,000
(b) Reserves and Surplus	2	1,85,000
(2) Non-Current Liabilities		
Long-term borrowings	3	7,50,000
(3) Current Liabilities		
Trade payables		4,15,000
Total		61,90,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	47,60,000
(b) Non-current investments		1,60,000

(2) Current assets		
(a) Inventory		3,05,000
(b) Trade receivables		6,75,000
(c) Cash and bank balances		2,90,000
Total		61,90,000

Notes to Accounts:

		(₹)	(₹)
1.	Share Capital		
	Authorized: 2,00,000 shares of ₹ 25 each		50,00,000
	Issued, subscribed, and paid up Equity share capital:		
	1,80,000 Equity shares of ₹25 each	45,00,000	
	3,400 Preference shares of ₹ 100 each	3,40,000	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		48,40,000
2.	Reserves and surplus		
	Securities Premium (3,400 x ₹ 20)	68,000	
	Capital Reserve	1,17,000	1,85,000
3.	Long-term borrowings		
	18% Debentures		7,50,000
4.	Property, plant and equipment		
	Land and Building	15,60,000	
	Plant and Machinery	32,00,000	47,60,000

Working Notes:

		(₹)	
		Black Ltd.	Grey Ltd.
1.	Computation of Purchase consideration		
	(a) Preference shares:		
	Shares at ₹ 120 each	2,40,000	1,68,000
	(b) Equity shares:		
	Preceding 2 years profitability		

	Year 1		1,50,000		1,20,000
	Year 2		2,00,000		1,30,000
			3,50,000		2,50,000
	Shares (in ratio 35: 25)				
	1,05,000 shares at ₹ 25		26,25,000		
	75,000 shares at ₹ 25				18,75,000
	Amount of purchase consideration (a + b)		28,65,000		20,43,000
2.	Net Assets Taken Over				
	Assets taken over:				
	Land and Building		5,20,000		10,40,000
	Plant and Machinery		18,00,000		14,00,000
	Investments		1,00,000		60,000
	Inventory		1,80,000		1, 25,000
	Trade receivables		4,25,000		2,50,000
	Cash and bank		1,60,000		1,30,000
			31,85,000		30,05,000
	Less: Liabilities taken over:				
	Debentures	3,33,333		4,16,667	
	Trade payables	2,95,000		1,20,000	
			6,28,333		5,36,667
	Net assets taken over		25,56,667		24,68,333
	Purchase consideration		28,65,000		20,43,000
	Goodwill		3,08,333		
	Capital reserve				4,25,333
Net amount of capital reserve					₹ 1,17,000

3.

	Black Limited	White Limited
Existing Debentures	₹ 4,00,000 x 15% = ₹ 60,000	₹ 5,00,000 x 15% = ₹ 75,000
Debentures to be issued in Grey Limited @ 18% to maintain the same amount of interest	₹ 60,000 x 100/18 = ₹ 3,33,333	₹ 75,000x100/18 = ₹ 4,16,667

Question 5

(a) *XYZ District Co-operative Bank has Tier I and Tier II capital funds as ₹ 91,930 crores & ₹ 185 crores respectively and its assets details are as below:*

Assets	*Amount in ₹ crore*
Cash Balance with RBI	*540*
Balances with other Banks	*1,940*
Claims on banks	*2,655*
Other Investments	*75,490*
Loans and Advances:	
(i) Guaranteed by public sector undertakings of Central Govt	*75,185*
(ii) Others	*6,25,162*
Premises, furniture and fixtures	*15,750*
Other Assets	*22,135*

Besides the above bank has Acceptances, endorsements and letters of credit of ₹ 4,87,259 crores as off-Balance Sheet Item.

You are required to calculate the Capital Adequacy Ratio for the Bank.

(b) *Lifeline General Insurance Company provides the following information for the year ended 31st March, 2020:*

Particulars	*Related to Direct Business (₹)*	*Related to Reinsurance Business (₹)*
Premium received	*95,29,400*	*12,25,300*
Premium paid during the year	*-*	*6,99,000*
Claims received	*-*	*4,95,000*
Claims paid during the year	*59,76,000*	*7,18,000*
Claims payable:		
31st March, 2020	*8,08,900*	*80,000*
1st April, 2019	*7,89,200*	*1,05,100*
Claims receivable:		
1st April, 2019	*-*	*65,000*
31st March, 2020	*-*	*1,51,000*
Expenses of Management	*3,85,050*	*-*

Commission:		
On Insurance accepted	*2,05,000*	*25,000*
On Insurance ceded	*-*	*28,000*

The following additional information is also available:

(i) Expenses of Management include ₹ 56,000 Surveyor's fees and ₹ 85,000 Legal expenses for settlement of claims.

(ii) The net premium income of the company during the FY 2018-19 was ₹ 38,00,000 on which reserve for unexpired risk@ 50% and additional reserve @ 6.5% was created. This year, the balance to be carried forward is 40% of net premium on reserve for unexpired risk and 5% on additional reserve.

You are required to make the Revenue Account for the year ended 31st March, 2020.

(6 + 10 = 16 Marks)

Answer

(a)

	₹ in crores
Capital Funds - Tier I :	91,930
Capital Funds - Tier II :	185
	92,115

Risk Adjusted Assets

Funded Risk Assets	₹ lakhs	Percentage weight	Amount ₹
Cash Balance with RBI	540	0	Nil
Balances with other Banks	1,940	20	388
Claims on banks	2,655	20	531
Other Investments	75,490	100	75,490
Loans and Advances:			
(i) guaranteed by public sector undertakings of Central Govt.	75,185	0	Nil
(ii) Others	6,25,162	100	6,25,162
Premises, furniture and fixtures	15,750	100	15,750
Other Assets	22,135	100	22,135
		(i)	7,39,456

Off-Balance Sheet Item	₹ *lakhs*	Credit *Conversion Factor*	
Acceptances, Endorsements and Letters of credit	4,87,259	100	(ii) 4,87,259
			12,26,715

Risk Weighted Assets Ratio: $\dfrac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + off Balance sheet items}} \times 100$

= 92,115/ 12,26,715 (i+ii)

Capital Adequacy Ratio = 92,115/ 12,26,715 (i+ii) X 100= 7.51%

(b) Form B-RA (Prescribed by IRDA)

Lifeline General Insurance Company

Registration no. and date of registration with IRDA

Revenue Account for the year ended 31st March, 2020

Particulars	*Schedule*	*Amount (₹)*
Premium earned (Net)	1	76,77,635
Total (A)		76,77,635
Claims incurred (Net)	2	62,48,600
Commission	3	2,02,000
Operating expenses related to insurance business	4	2,44,050
Total (B)		66,94,650
Operating profit from insurance business (A-B)		9,82,985

Schedules forming part of Revenue Account

Schedule 1: Premium Earned (Net)

Particulars	*Amount (₹)*
Premium from direct business written	95,29,400
Add: Premium on reinsurance accepted	12,25,300
Less: Premium on reinsurance ceded	(6,99,000)
Net Premium	100,55,700
Adjustment for change in Reserve for unexpired risk (W.N.2)	(23,78,065)
Total Premium earned (net)	76,77,635

Schedule 2: Claims Incurred (Net)

Particulars	*Amount (₹)*
Claims paid - Direct (W.N.1)	61,36,700
Add: Re-insurance accepted (W.N.1)	6,92,900
Less: Re-insurance ceded (W.N.1)	(5,81,000)
Net Claims paid	62,48,600

Schedule 3: Commission

Particulars	*Amount (₹)*
Commission paid	2,05,000
Add: Reinsurance accepted	25,000
Less: Commission on reinsurance ceded	(28,000)
Net Commission	2,02,000

Schedule 4: Operating Expenses related to Insurance Business

Particulars	*Amount (₹)*
Expenses of management (3,85,050–56,000 –85,000)	2,44,050
	2,44,050

Working Notes:

1. **Claims incurred**

Particulars	*Direct Business (₹)*	*Re-insurance accepted (₹)*	*Re-insurance Ceded (₹)*
Paid / received	59,76,000	7,18,000	4,95,000
Add: Outstanding at the end of the year	8,08,900	80,000	1,51,000
Add: Expenses in connection with settlement of claims (56,000 + 85,000)	1,41,000		
Less: Outstanding at the beginning of the year	(7,89,200)	(1,05,100)	(65,000)
	61,36,700	6,92,900	5,81,000

2. **Change in Reserve for unexpired risk**

Particulars	*Amount (₹)*
Reserve for unexpired risk for the year 2019-20 (₹100,55,700 x 40%)	40,22,280

Add: Additional reserve for unexpired risk for the year 2019-20 (₹100,55,700 x 5%)*	5,02,785 45,25,065
Less: Reserve for unexpired risk for the year 2018-19 (₹38,00,000 x 50%)	(19,00,000)
Additional reserve for unexpired risk for the year 2018-19 (38,00,000 x 6.5%)	(2,47,000)
	23,78,065

**Additional reserve created at specified percentage of net premium amount.*

Question 6

(a) *PQR Limited is a retail organization with several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The markup for Department A for the last three years has been 20%. Figures relevant to Department A for the year ended 31st March, 2020 were as follows:*

Opening stock as on 1st April, 2019, at cost	*₹70,000*
Purchases at cost	*₹2,16,000*
Sales	*₹3,24,000*

It is further ascertained that :

(1) *Goods purchased in the period were marked down by ₹ 1,680 from a cost of ₹19,200. Marked down stock costing ₹4,800 remained unsold on 31st March 2020.*

(2) *Shortage of stock found in the year ending 31.03.2020, costing, ₹ 1,440 was written off.*

(3) *Opening stock on 01.04.19 including goods costing ₹ 9,840 had been sold during the year and had been marked down in the selling price by ₹ 888. The remaining stock had been sold during the year.*

(4) *The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.*

You are required to prepare:

(i) *A Departmental Trading Account for Department A for the year ended 31st March, 2020 in the books of Head Office.*

(ii) *A Memorandum Stock Account for the year.*

(iii) *A Memorandum Mark-up Account for the year.*

(b) *PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2020 is as follows:*

	US$	
Particulars	*Debit*	*Credit*
Office equipment (Cost)	*56,400*	
Opening Accumulated Depreciation (Office equipment)		*5,400*
Furniture and Fixtures (Cost)	*36,000*	
Opening Accumulated Depreciation (Furniture and Fixtures)		*6,840*
Opening Stock as on 1st April, 2019	*24,500*	
Purchases	*96,500*	
Sales		*1,76,250*
Salaries	*4,250*	
Carriage inward	*256*	
Rent, Rates & Taxes	*956*	
Sundry debtors	*12,560*	
Sundry creditors		*8,650*
Cash at bank	*2,540*	
Cash in hand	*500*	
Head office Account		*37,322*
Total	*2,34,462*	*2,34,462*

Following further information are given:

(i) *Salaries outstanding as on 31st March, 2020 is US$ 600.*

(ii) *Depreciate office equipment and furniture & fixtures @ 10% at written down value.*

(iii) *Closing stock as on 31st March, 2020 is US $, 24,650.*

(iv) *You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2020. No transaction in respect of the Branch is pending in Head office.*

(v) *Office equipment (cost) includes one office equipment of US $ 2,400 purchased on 1/04/2019.*

(vi) *One furniture of carrying value of US $ 450 as on 01/04/2019 (cost: US $ 500 and Accumulated depreciation: US $ 50) has been sold for US $ 405 on 31/03/2020 to*

Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.

(vii) The rate of exchange on different dates are:

Date	*1 US $ is equivalent to*
1st April, 2019	*₹ 64*
31st December, 2019	*₹ 70*
31st March, 2020	*₹ 75*
Average for the year	*₹ 72*

You are required to prepare the trial Balance after incorporating adjustments given and converting US $ into rupees. ***(10+6 =16 Marks)***

Answer

(a) (i) Department Trading Account for the year ending on 31.03.2020

In the books of Head Office

Particulars	₹	*Particulars*	₹
To Opening Stock	70,000	By Sales	3,24,000
To Purchases	2,16,000	By Shortage	1,440
To Gross Profit c/d	52,210	By Closing Stock	12,770
	3,38,210		3,38,210

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

Particulars	₹	*Particulars*	₹
To Balance b/d (₹ 70,000 + 20% of ₹ 70,000)	84,000	By Profit & Loss A/c (Cost of Shortage)	1440
To Purchases (₹ 2,16,000 + 20% of ₹ 2,16,000)	2,59,200	By Memorandum Departmental Mark up A/c (Load on Shortage) (₹ 1,440 x 20%)	288
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,680
		By Debtors A/c (Sales)	3,24,000

		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	888
		By Balance c/d	14,904
	3,43,200		3,43,200

(iii) Memorandum Departmental Mark-up Account

Particulars	₹	*Particulars*	₹
To Memorandum Departmental Stock A/c (₹ 1,440 × 20/100)	288	By Balance b/d (₹ 70,000 x 20%)	14,000
To Memorandum Departmental Stock A/c	1,680	By Memorandum Departmental Stock A/c (₹2,16,000 x 20/100)	43,200
To Memorandum Departmental Stock A/c	888		
To Gross Profit transferred to Profit & Loss A/c	52,210		
To Balance c/d [(₹14,904 + 420*) x 20/120 - ₹420]	2,134		
	57,200		57,200

*[₹ 1,680 ×4,800/19,200] = ₹420

Working Notes:

(i) **Calculation of Cost of Sales**

		₹
A	Sales as per Books	3,24,000
B	*Add*: Mark-down in opening stock (given)	888
C	*Add*: mark-down in sales out of current Purchases (₹ 1,680 x 14,400 /19,200)	1,260
D	Value of sales if there was no mark-down (A+B+C)	3,26,148
E	*Less*: Gross Profit (20/120 of ₹3,26,148) subject to Mark Down	(54,358)
F	Cost of sales (D-E)	2,71,790

(ii) **Calculation of Closing Stock**

		₹
A	Opening Stock	70,000
B	*Add*: Purchases	2,16,000
C	*Less*: Cost of Sales	(2,71,790)
D	*Less*: Shortage	(1,440)
E	Closing Stock (A+B-C-D)	12,770

(b) In the books of PQR

Trial Balance (in Rupees) of Houston (USA) Branch – Non Integral foreign operation as on 31st March, 2020

	Dr.	*Cr.*	*Conversion*	*Dr.*	*Cr.*
	US $	*US $*	*rate*	₹	₹
Office Equipment	56,400		75	42,30,000	
Depreciation on Office Equipment (Accumulated) (5,400+5,100)		10,500	75		7,87,500
Depreciation	8,016		75	6,01,200	
Furniture and fixtures (36,000-500)	35,500		75	26,62,500	
Depreciation on furniture and fixtures (Accumulated) (6,840-50-45 +2,916)		9,661	75		7,24,575
Stock (1st April, 2019)	24,500		64	15,68,000	
Purchases	96,500		72	69,48,000	
Sales		1,76,250	72		126,90,000
Carriage inward	256		72	18,432	
Salaries (4,250+600)	4,850		72	3,49,200	
Rent, rates and taxes	956		72	68,832	
Salaries payable		600	75		45,000
Head Office A/c		37,322			23,75,614 (given)
Trade debtors	12,560		75	9,42,000	
Trade creditors		8,650	75		6,48,750

Cash at bank	2,540		75	1,90,500	
Cash in hand	500		75	37,500	
Mr. M (Receivable for sale of furniture)	405		75	30,375	
Exchange gain (bal. fig.)	____	____		________	3,75,100
	2,42,983	2,42,983		176,46,539	176,46,539

Closing stock 24,650 US$ x ₹ 75 =₹18,48,750.

Question 7

*Answer any **four** of the following:*

(a) *Mr. Roy is engaged in Trading of Item I and II. Following Data are available from his Accounting records for Accounting period (1st April, 2019 to 31st March, 2020)*

(i) *Purchased item I on cash for ₹ 60,000 in F.Y. 2019-20.*

(ii) *Purchased item II on credit for ₹ 4,500 in F.Y. 2019-20.*

(iii) *Sold item II for ₹ 5,000 in cash in F.Y. 2019-20.*

(iv) *He also sold item I for ₹ 60,000 in cash and ₹ 15,000 on credit in F.Y. 2019-20.*

(v) *Payment for Item II purchase was done on 20th April 2020 for ₹ 4,300 as full and final payment*

(vi) *Paid Insurance ₹ 2,400 for one year as on 1st July, 2019.*

(vii) *Wages to worker is payable for the month of March, 2020 ₹ 200.*

Prepare the Profit and Loss Account of the trader by applying cash basis as well as accrual basis of accounting.

(b) *Under what circumstances, an LLP can be wound up by the Tribunal?*

(c) *On 1st April, 2019, a company offered 100 shares to each of its 600 employees at ₹ 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 70 per share. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 65 per share.*

On 31st March, 2020, 500 employees accepted the offer and paid ₹ 60 per share purchased. Nominal value of each share is ₹ 10.

You are required to pass Journal Entries for issue of share in the books of the company under the aforesaid plan.

(d) *The following details have been taken out from the records of SGM Bank Ltd. as on 31st March, 2020:*

	Debit ₹	Credit ₹
Rebate on bills discounted (not due on31st March, 2019)		*56,800*
Discount received		*4,03,500*
Bills discounted	*15,08,600*	

An analysis of bills discounted is as follows:

Sl. No.	*Amount (₹)*	*Due date (year 2020)*	*Rate of discount*
1	*2,95,000*	*April 10th*	*13%*
2	*1,65,500*	*May 8th*	*14%*
3	*4,58,600*	*June 18th*	*16%*
4	*5,89,500*	*July 15th*	*15%*

You are required to:

(i) *Calculate rebate on bills discounted as on 31st March, 2020.*

(ii) *The amount of discount to be credited to the profit and loss account.*

(iii) *Prepare discount on bills account as would appear in the books of Bank.*

(e) *Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following:*

(i) *Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.*

(ii) *Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.*

(iii) *Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.*

(iv) *Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.* ***(4 Parts X 4 Marks = 16 Marks)***

Answer

(a) Cash basis of accounting

Profit and Loss Account

		₹			₹
2019-20	To Purchase	60,000	2019-20	By Sales	65,000
	To Insurance	2,400			

	To Net Profit	2,600			
		65,000			65,000

Accrual basis of accounting

Profit and Loss Account

		₹			₹
2019-20	To Purchase	64,500	2019-20	By Sale	80,000
	To Wages*	200		By Discount Received**	200
	To Insurance (2,400 less prepaid 600)	1,800			
	To Net Profit	13,700			
		80,200			80,200

**Considered that there was no payment of wages during the year. This worker was hired only in month of March.*

*** This discount was known and determined in the year 2019-20 (till 31st March, 2020).*

(b) An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(c) Fair value of an option = ₹65 – ₹60 = ₹5

Number of shares issued = 500 employees x 100 shares/employee = 50,000 shares

Fair value of ESPP = 50,000 shares x ₹ 5 = ₹ 2,50,000

Expenses recognized in 2019 - 20 = ₹ 2,50,000

Date	*Particulars*		₹	₹
31.03.2020	Bank (50,000 shares x ₹ 60)	Dr.	30,00,000	

	Employees compensation expense A/c	Dr.	2,50,000	
	To Share Capital (50,000 shares x ₹10)			5,00,000
	To Securities Premium (50,000 shares x ₹ 55)			27,50,000
	(Being option accepted by 500 employees and payment made)			
	Profit & Loss A/c	Dr.	2,50,000	
	To Employees compensation expense A/c			2,50,000
	(Being Employees compensation expense transferred to Profit & Loss A/c)			

(d) (i) Calculation of Rebate on bills discounted

S.No.	*Amount (₹)*	*Due date (year 2020)*	*Unexpired portion from 31st March, 2020*	*Rate of discount*	*Rebate on bills discounted (₹)*
(i)	2,95,000	April 10	10 days	13%	1,051
(ii)	1,65,500	May 8	38 days	14%	2,412
(iii)	4,58,600	June 18	79 days	16%	15,881
(iv)	5,89,500	July 15	106 days	15%	25,680
	15,08,600				45,024

(ii) Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discounted A/c as on 31st March, 2019	56,800
Add: Discount received during the year ended 31st March, 2020	4,03,500
	4,60,300
Less: Rebate on bills discounted as on 31st March, 2020	(45,024)
Discount credited to Profit and Loss Account	4,15,276

(iii) Discount on Bills account

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
31-03-2020	To Rebate on bills discounted	45,024	1st April, 2019	By Rebate on bills discounted b/f	56,800
”	To Profit and		2019-20	By Bills	

	Loss A/c (Bal. Fig.)	4,15,276		purchased & discounted	4,03,500
		4,60,300			4,60,300

(e) Journal Entries in Books of Branch

			Amount in ₹	
			Dr.	*Cr.*
(i)	Head Office Account	Dr.	4,000	
	To Cash Account			4,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(ii)	Goods –in- transit Account	Dr.	8,000	
	To Head Office Account			8,000
	(Being goods sent by Head Office still in-transit)			
(iii)	Provision for Doubtful Debts A/c	Dr.	2,000	
	To Head Office Account			2,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iv)	Head Office Account	Dr.	2,000	
	To Salaries Account			2,000
	(Being rectification of salary paid on behalf of Head Office)			