PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For MAY, 2021 EXAMINATION

A. Applicable for MAY, 2021 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;

(B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-

(I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;

(II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

II. Amendment in AS 11 “The Effects of Changes in Foreign Exchange Rates”

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the "ANNEXURE", under the heading "ACCOUNTING STANDARDS" under "AS 11 on The Effects of Changes in Foreign Exchange Rates", for the paragraph 32, the following paragraph shall be substituted, namely :-

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or Joss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised at the time of a write-down".

III. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for November, 2020 examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the accounting standards relevant for Paper 5:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 4	Footnote to AS 4	Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal with contingencies (viz. paragraphs 1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian	All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the impairment of financial assets such as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	Footnote has been modified.

		Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4.		
	8.5	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.	There are events which, although take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are	No liability for proposed dividends must be created now. Such proposed dividends are to be disclosed in the notes.

			disclosed in the notes.	
	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	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 should be created now. Such proposed dividends are to be disclosed in the notes.
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation

		expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013
AS 29	35 (An extract)	The amount of a provision should not be discounted to its present value.	The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognized as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow	Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein.

			estimates have been adjusted. Periodic unwinding of discount should be recognized in the statement of profit and loss.	
	73		**Transitional Provisions** All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.	Discounting of above existing provisions and similar liabilities should be prospectively, with the correspondin g effect to the related item of property, plant and equipment.

IV. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

(i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

(ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

(iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.

(iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

  (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

  (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

(v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:— (A) in deposits with any scheduled bank, free from any charge or lien; (B) in unencumbered securities of the Central Government or any State Government; (C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures."

NOTE: Unit 3 of Chapter 4 on Redemption of Debentures of Intermediate Paper 5 Advanced Accounting Study Material has been revised. The revised unit has been uploaded on the BoS Knowledge Portal of the Institute's website. It is advised to ignore the unit given in July, 2015 Edition (or prior Edition) of the Study Material and to refer the updated unit uploaded on the BoS Knowledge Portal of the Institute's website at the below mentioned link: https://resource.cdn.icai.org/54231bos43539cp4-u3.pdf

V. Provisions of the Companies Act, 2013 related with Liquidation of Companies

As per Section 2 (94A) of the Companies Act, 2013, winding up means winding up under this Act. As per section 270, the provision of Part I should apply to the winding up of a company by the Tribunal under this Act.

Circumstances in which Company may be wound up by Tribunal [Section 271]

(a) The company has resolved that the company be wound up by the Tribunal.

(b) The company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality

(c) The Registrar or any other person authorized by the Central Government by notification under this Act can make an application to tribunal. The Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.

(d) The company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding 5 consecutive financial years.

(e) The Tribunal is of the opinion that it is just and equitable that the company should be wound up.

A company may file petition for winding up under section 272 of the Companies Act, 2013. Petition for winding up to Tribunal cab neb made by the company, any contributory or contributories, the registrar, any person authorized by Central Govt. in that behalf or li case affairs of the company have been conducted in a Fraudulent manner, by the Central Government or a State Government.

Petition by Contributory

A contributory should be entitled to present a petition for the winding up of a company. Shares in respect of which he is a contributory were either originally allotted to him or have been held by him for at least 6 months during the 18 months immediately before the commencement of the winding up and registered in his name or have transferred to him through the death of a former holder.

Petition by Registrar

The Registrar should be entitled to present a petition for winding up under section 271, except on the grounds specified in section 271 (a) or (e). The Registrar should obtain the previous sanction of the Central Government to the presentation of a petition. The Central Government should not accord its sanction unless the company has been given a reasonable opportunity of making representations.

Petition by Company

A petition presented by the company for winding up before the Tribunal should be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

A copy of the petition made under this section should also be filed with the Registrar and the Registrar should, without prejudice to any other provisions, submit his views to the Tribunal within 60 days of receipt of such petition.

A company may be wound up voluntarily [Section 304],:

(a) if the company in general meeting passes a resolution requiring the company to be wound up voluntarily as a result of the expiry of the period for its duration, if any, fixed by its articles or on the occurrence of any event in respect of which the articles provide that the company should be dissolved; or

(b) if the company passes a special resolution that the company be wound up.

Liquidators' Statement of Account

In case of Compulsory wound-up, the Company Liquidator should keep proper books in such manner, as may be prescribed, in which he should cause entries or minutes to be made of proceedings at meetings and of such other matters as may be prescribed.

Any creditor or contributory may, subject to the control of the Tribunal, inspect any such books, personally or through his agent.

While preparing the liquidator's statement of account, receipts are shown in the following order:

(a) Amount realized from assets are included in the prescribed order.

(b) In case of assets specifically pledged in favour of creditors, only the surplus from it, if any, is entered as 'surplus from securities'.

(c) In case of partly paid up shares, the equity shareholders should be called up to pay necessary amount (not exceeding the amount of uncalled capital) if creditors' claims/claims of preference shareholders can't be satisfied with the available amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying of creditors.

(d) Amounts received from calls to contributories made at the time of winding up are shown on the Receipts side.

(e) Receipts per Trading Account are also included on the Receipts side.

(f) Payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order:

(a) Legal charges;

(b) Liquidator's expenses;

(c) Debenture holders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);

(d) Creditors:

  (i) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge);

  (ii) Unsecured creditors;

(e) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and

(f) Equity shareholders.

Commencement of Winding Up by Tribunal [Section 357]

Where, before the presentation of a petition for the winding up of a company by the Tribunal, a resolution has been passed by the company for voluntary winding up, the winding up of the company should be deemed to have commenced at the time of the passing of the resolution, and unless the Tribunal, on proof of fraud or mistake, thinks fit to direct otherwise, all proceedings taken in the voluntary winding up should be deemed to have been validly taken.

In any other case, the winding up of a company by the Tribunal should be deemed to commence at the time of the presentation of the petition for the winding up.

Exclusion of Certain Time in Computing Period of Limitation [Section 358]

Notwithstanding anything in the Limitation Act, 1963, or in any other law for the time being in force, in computing the period of limitation specified for any suit or application in the name and on behalf of a company which is being wound up by the Tribunal, the period from the date of commencement of the winding up of the company to a period of one year immediately following the date of the winding up order should be excluded.

Statement of Affairs

In case of winding up by Tribunal, Section 272(5) of the Companies Act, 2013 provides that a petition presented by the company for winding up before the Tribunal shall be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

In accordance with Section 274(1), where a petition for winding up is filed before the Tribunal by any person other than the company, the Tribunal shall, if satisfied that a prima facie case for winding up of the company is made out, by an order direct the company to file its objections along with a statement of its affairs within thirty days of the order in such form and in such manner as may be prescribed. The Tribunal may allow a further period of thirty days in a situation of contingency or special circumstances.

The broad lines on which the Statement of Affairs is prepared are the following —

(1) Include assets on which there is no fixed charge at the value they are expected to realize. Students should note to include calls in arrear but not uncalled capital.

(2) Include assets on which there is a fixed charge. The amount expected to be realized would be compared with the amount due to the creditor concerned. Any **surplus** is to be extended to the other column. A **deficit** (the amount owed to the creditor exceeding the amount realizable from the asset) is to be added to unsecured creditors.

(3) The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors (except secured creditors already covered by specifically mortgaged assets).

(4) From the total assets available, the following should be deducted one by one:-

    (i) Preferential creditors,

    (ii) Debentures having a floating charge, and

    (iii) Unsecured creditors.

    If a minus balance emerges, there would be deficiency as regards creditors, otherwise there would be a surplus.

(5) The amount of total paid-up capital (giving details of each class of shares) should be added and the figure emerging will be deficiency (or surplus) as regards members.

Note: Statement of affairs should accompany eight lists:

List A	Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.
List B	Assets specifically pledged and creditors fully or partly secured.
List C	Preferential creditors for rates, taxes, salaries, wages and otherwise.
List D	List of debenture holders secured by a floating charge.
List E	Unsecured creditors.
List F	List of preference shareholders.
List G	List of equity shareholders.
List H	Deficiency or surplus account.

Deficiency Account

The official liquidator will specify a date for period (minimum three years) beginning with the date on which information is supplied for preparation of an account to explain the deficiency or surplus. On that date either assets would exceed capital plus liabilities, that is, there would be a reserve or there would be a deficit or debit balance in the Profit and Loss Account. The Deficiency account is divided into two parts:

1. The first part starts with the deficit (on the given date) and contains every item that increases deficiency (or reduces surplus such as losses, dividends etc.).
2. The second part starts with the surplus on the given date and includes all profits.

If the total of the first exceeds that of the second, there would be a deficiency to the extent of the difference, and if the total of the second part exceeds that of the first, there would be a surplus.

Overriding Preferential Payments [Section 326]: In the winding up of a company under this Act, the following debts should be paid in priority to all other debts:

a. workmen's dues; and
b. where a secured creditor has realized a secured asset, so much of the debts due to such secured creditor as could not be realized by him or the amount of the workmen's portion in his security (if payable under the law), whichever is less, pari- passu with the workmen's dues:

Explanation: For the purposes of this section, and section 327 -

a) **Workmen,** in relation to a company, means the employees of the company, being workmen within the meaning of Section 2 (s) of the Industrial Disputes Act, 1947;

b) **Workmen's dues,** in relation to a company, means the aggregate of the following sums due from the company to its workmen, namely:

(i) All wages or salary including wages payable;

(ii) all accrued holiday remuneration becoming payable to any workman

(iii) unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company or unless the company has, at the commencement of the winding up, under such a contract with insurers as is mentioned in section 14 of the Workmen's Compensation Act, 1923 (19 of 1923), rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any workman of the company;

(iv) all sums due to any workman from provident fund, pension fund, gratuity fund or any other fund maintained by the company.

The following payment should be made in priority to secured creditors:

(i) All wages or salary including wages payable;

(ii) all accrued holiday remuneration becoming payable to any workman

(iii) If the above payments are payable for a period of 2 years preceding the winding up order then the same shall be paid in priority to all other debts (including debts due to secured creditors), within a period of 30 days of sale of assets and shall be subject to such charge over the security of secured creditors.

c) **Workmen's portion,** in relation to the security of any secured creditor of a company, means the amount which bears to the value of the security the same proportion as the amount of the workmen's dues bears to the aggregate of the amount of workmen's dues and the amount of the debts due to the secured creditors.

Preferential Creditors

In a winding up these should be paid in priority to all other debts subject to the provisions of section 326.

Preferential Creditors are as follows:

a. **Government Taxes:** All revenues, taxes, cess and rates due from the company to the Central Government or a State Government or to a local authority at the relevant date, and having become due and payable within the twelve months immediately before that date;

b. **Salary and Wages:** All wages or salary including wages payable for time or piece work and salary earned wholly or in part by way of commission of any employee in respect of services rendered to the company and due for a period not exceeding four months within the 12 months immediately before the relevant date, subject to the condition that the amount payable under this clause to any workman should not exceed such amount as may be notified;

c. **Holiday Remuneration:** All accrued holiday remuneration becoming payable to any employee, or in the case of his death, to any other person claiming under him, on the termination of his employment before, or by the winding up order, or, as the case may be, the dissolution of the company;

d. **Contribution under ESI Act:** Unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company, all amount due in respect of contributions payable during the period of twelve months immediately before the relevant date by the company as the employer of persons under the Employees' State Insurance Act, 1948 or any other law for the time being in force;

e. **Compensation in respect of death of disablement:** Unless the company has, at the commencement of winding up, under such a contract with any insurer as is mentioned in section 14 of the Workmen's Compensation Act, 1923, rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any employee of the company: Where any compensation under the said Act is a weekly payment, the amount payable under this clause should be taken to be the amount of the lump sum for which such weekly payment could, if redeemable, be redeemed, if the employer has made an application under that Act;

f. **PF, Pension Fund or Gratuity Fund:** All sums due to any employee from the provident fund, the pension fund, the gratuity fund or any other fund for the welfare of the employees, maintained by the company; and

g. **Expenses of Investigation:** The expenses of any investigation held in pursuance of sections 213 and 216, in so far as they are payable by the company.

   Where any advance payment has been made to any employee of a company on account of wages or salary or accrued holiday remuneration himself by some person for that purpose. The person by whom the money was advanced should have a right of priority in respect of the money so advanced and paid-up to the amount. The sum in respect of which the employee or other person in his right would have been entitled to priority in the winding up has been reduced by reason of the payment having been made.

The debts enumerated in this section should—

h. rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they should abate in equal proportions; and

i. so far as the assets of the company available for payment to general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.

The debts under this section should be discharged forthwith so far as the assets are sufficient to meet them, subject to the retention of such sums as may be necessary for the costs and expenses of the winding up.

In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months immediately before the date of a winding up order, the debts to which priority is given under this section should be a first charge on the goods or effects so distrained on or the proceeds of the sale thereof: Provided that, in respect of any money paid under any such charge, the landlord or other person should have the same rights of priority as the person to whom the payment is made. Any remuneration in respect of a period of holiday or of absence from work on medical grounds through sickness or other good cause should be deemed to be wages in respect of services rendered to the company during that period.

Explanations: For the purposes of this section,

- **Accrued Holiday Remuneration includes,** in relation to any person, all sums which, by virtue either of his contract of employment or of any enactment including any order made or direction given thereunder, are payable on account of the remuneration which would, in the ordinary course, have become payable to him in respect of a period of holiday, had his employment with the company continued until he became entitled to be allowed the holiday;
- **Employee** does not include a workman; and
- **Relevant Date** means in the case of a company being wound up by the Tribunal, the date of appointment or first appointment of a provisional liquidator, or if no such appointment was made, the date of the winding up order, unless, in either case, the company had commenced to be wound up voluntarily before that date under the Insolvency and Bankruptcy Code, 2016.

Effect of Floating Charge [Section 332]

Where a company is being wound up, a floating charge on the undertaking or property of the company created within the 12 months immediately preceding the commencement of the winding up, should be invalid unless it is proved that the company immediately after the creation of the charge was solvent except for the amount of any cash paid to the company at the time of and in consideration for or subsequent to the creation of the charge together with interest on that amount at the rate of 5 per cent per annum or such other rate as may be notified by the Central Government in this behalf.

B List Contributories

(a) **Persons**: Shareholders who had transferred Partly Paid Shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories.

(b) **Liability**: Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only.

(c) **Conditions**: Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.

VI. Maintenance of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)

Statutory Liquidity Ratio (SLR)

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in supersession of the notifications DBR.No.Ret.BC.14/12.02.001/2016-17 dated October 13, 2016 BR.NDBR.No.Ret.BC.91/12.02.001/2017-18 dated October 04, 2017, the Reserve Bank hereby specifies that with effect from the dates given below, every Scheduled Commercial Bank (including RRBs), Local Area Bank, Small Finance Bank, Payments Bank, Primary (urban) co-operative bank and State and central co-operative banks shall continue to maintain in India assets (referred to as 'SLR assets') the value of which shall not, at the close of business on any day, be less than:

(i) 19.25 per cent from January 5, 2019

(ii) 19.00 per cent from April 13, 2019

(iii) 18.75 per cent from July 6, 2019

(iv) 18.50 per cent from October 12, 2019

(v) 18.25 per cent from January 4, 2020

(vi) 18.00 per cent from April 11, 2020

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time.

Cash Reserve Ratio (CRR)

As per RBI Circular no. DOR.No.Ret.BC.50/12.01.001/2019-20 dated March 27, 2020, the Reserve Bank of India hereby notifies that the average Cash Reserve Ratio (CRR) required to be maintained by every Bank shall be 3.00* per cent of its net demand and time liabilities from the fortnight beginning March 28, 2020 for a period of one year, ending on March 26, 2021.

*Earlier it was 4%.

VII. Enhanced borrowing facility provided to the banks to meet their liquidity shortages till September 30, 2020

As per RBI Circular no. RBI/2019-20/259DOR.No.Ret.BC.77/12.02.001/2019-20 (applicable for All Scheduled Banks (excluding Regional Rural Banks) dated June 26, 2020 and Statement of Developmental and Regulatory Policies dated March 27, 2020, the borrowing limit of scheduled banks under the Marginal Standing Facility (MSF scheme), by dipping into the prescribed SLR, was increased from 2 per cent to 3 per cent of their Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight with immediate effect. This relaxation was earlier available up to June 30, 2020. It has now been decided to extend this enhanced limit till September 30, 2020.

VIII. Sale of Securities held in Held to Maturity (HTM) Category

Accounting treatment

Investments by Primary (Urban) Co-operative Banks (UCBs) if securities acquired by banks with the intention to hold them up to maturity will be classified under HTM category. As per Circular no. RBI/2018-19/205 DCBR.BPD. (PCB) Cir.No.10/16.20.000/2018-19 dated 10th June, 2019, it is reiterated that UCBs are not expected to resort to sale of securities held in HTM category. However, if due to liquidity stress, UCBs are required to sell securities from HTM portfolio, they may do so with the permission of their Board of Directors and rationale for such sale may be clearly recorded. Profit on sale of investments from HTM category shall first be taken to the Profit and Loss account and, thereafter, the amount of such profit shall be appropriated to 'Capital Reserve' from the net profit for the year after statutory appropriations. Loss on sale shall be recognized in the Profit and Loss account in the year of sale.

Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks

As per Circular no. RBI/2018-19/204 DBR.No.BP.BC.46/21.04.141/2018-19 dated 10th June, 2019 (referring to RBI circular DBR No BP.BC.6/21.04.141/2015-16 dated July 1, 2015 advising banks that if the value of sales and transfer of securities to / from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year) banks should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. Apart from transactions that are already exempted from inclusion in the 5 per cent cap, it has been decided that repurchase of State Development Loans (SDLs) by the concerned state government shall also be exempted.

IX. Relevant Provisions of the Insurance Act [updated as per the Insurance (Amendment) Act, 2015]

The provisions of sections 10 and 11 have been modified vide the Insurance Laws (Amendment) Act, 2015. These amendments have necessitated changes to the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations 2002. The significant provisions are as follows:

(1) Forms for final accounts [Section 11(1)]. Every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, should, at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified.

(2) Audit [Section 12]: The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of every insurer, in respect of all insurance business transacted by him, should, unless they are subject to audit under the Companies Act, 2013, be audited annually by an auditor, and the auditor should in the audit of all such accounts have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by Section 147 of the Companies Act, 2013.

(3) Register of policies [Section 14(1)]: Every insurer, in respect of all business transacted by him, should maintain— (a) a record of policies, in which should be entered, in respect of every policy issued by the insurer, the name and address of the policyholder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice; (b) a record of claims, every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds thereof; and (c) a record of policies and claims in accordance with clauses (a) and (b) may be maintained in any such form, including electronic mode, as may be specified by the regulations made under this Act.

(4) Approved investments (Section 27B(1)): A company carrying on general insurance business must invest its funds only in approved securities listed in this section.

(5) Payment of commission to authorized agents (Section 40(1)): As per the Insurance (Amendment) Act 2015, no person should, pay or contract to pay any remuneration or reward, whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent or an intermediary or insurance intermediary in such manner as may be specified by the regulations.

(6) Limit on expenditure (Sections 40B and 40C): As per the Insurance (Amendment) Act 2015 No insurer should, in respect of insurance business transacted by him in India, spend as expenses of management in any financial year any amount exceeding the amount as may be specified by the regulations made under this Act and every insurer transacting insurance business in India should furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act."

(7) Sufficiency of assets [Section 64VA(1)]: Every insurer and re-insurer should at all times maintain an excess of value of assets over the amount of liabilities of, not less than fifty per cent. of the amount of minimum capital as stated under section 6 and arrived at in the manner specified by the regulations.

(8) Segregation of Policyholders' and Shareholders' Funds by the insurers carrying on General Insurance, Health Insurance and Reinsurance business: Section 11 (2) of the Insurance Laws (Amendment) Act, 2015 mandates that every insurer shall keep separate funds of shareholders and policyholders.

(9) Unearned Premium Reserve (UPR): A Reserve for Unearned Premium shall be created as the amount representing that part of the premium written which is attributable to, and is to be allocated to the succeeding accounting periods. Such Reserves shall be computed as under:

a) Marine Hull: 100 percent of Net Written Premium during the preceding twelve months;

b) Other Segments: Insurers have an option to create UPR either at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies.

The insurers can follow either percentage or 1/365th method for computation of UPR of the other segments. However, Insurers shall follow the method of provisioning of UPR in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.

(10) Recoupment of the Deficit: Every Insurer shall ensure that the policyholders' fund is fully supported by the policyholders' investments shown in Schedule-SA. Therefore, any deficit/shortfall in policyholders' investments arising out of the loss in the Revenue Account or otherwise shall be recouped by transfer of securities from the shareholders' investments to the policyholders' investments on a half yearly basis. The valuation of such securities shall be in accordance with the valuation norms as

specified in the IRDA (Preparation of Financial Statements and Auditors' Report) Regulations, 2002.

(11) Investment made out of the policyholders' funds: Investment made out of the policyholders' funds shall be shown in a separate schedule i.e., 8 A. The format of the same is given as below:

Annexure

SCHEDULE- 8A

INVESTMENTS-POLICYHOLDERS

Particulars	Current Year	Previous Year
	('000)	('000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares - i) Equity; ii) Preference (b) Mutual Funds (c) Debentures/ Bonds (d) Investment Property-Real Estate (e) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
Sub-Total		
SHORT TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares- i) Equity ii) Preference (b) Mutual Funds (c) Debentures/ Bonds (d) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
Sub-Total		
Total		

B. <u>Not applicable for May, 2021 Examination</u>

Non-Applicability of Ind AS for May, 2021 Examination:

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2021 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm –

1. X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2020 is as below:

Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Creditors	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000

Dissolution expenses were provided for estimated amount of	₹ 12,000
The creditors were settled finally for	₹ 63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

Limited Liability Partnerships

2 Write short note on Designated Partners in a Limited Liability Partnership and what are their liabilities.

ESOPs

3 (a) Define the following terms:

(i) Vesting Period;

(ii) Grant Date.

(b) PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2018, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 18 on the grant date and the exercise price is ₹ 55 per share. Number of employees expected to satisfy service conditions are 930 in the 1st year and 850 in the 2nd year. However, 880 employees have actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2018-2019 and 2019-2020.

Buy Back of Securities

4 M/s. Vriddhi Infra Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(₹)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital: 1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000
Securities Premium	3,00,000
General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2020 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2020, the company achieved the target of buy back. On 1st May, 2020 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

Redemption of Debentures

5. The following balances appeared in the books of Omega Ltd. as on 1-4-2020:

   (i) 10 % Debentures ₹ 75,00,000

   (ii) Balance of DRR ₹ 2,50,000

   (iii) DRR Investment ₹ 11,25,000 represented by 10% ₹ 11,250 Secured Bonds of the Government of India of ₹ 100 each.

   Annual contribution to the DRR was made as per the requirement. On 31-3-2021, balance at bank was ₹ 80,00,000 before receipt of interest. Interest on Debentures had already been paid. The investment were realized at par for redemption of debentures at a premium of 10% on the above date.

   Omega Ltd. is an unlisted company (other than AIFI, Banking company, NBFC and HFC). You are required to prepare Debenture Redemption Reserve Account, Debenture Redemption Reserve Investment Account and Bank Account in the books of Omega Ltd. for the year ended 31st March, 2021.

Underwriting of Shares

6 Write a short note on Firm underwriting and Partial underwriting along with firm underwriting.

Amalgamation of Companies

7. Mohan Ltd. gives you the following information as on 31st March, 2020:

	₹
<u>Sharecapital</u>:	
Equity shares of ₹ 10 each	3,00,000
6,000, 9% cumulative preference shares of ₹ 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of ₹ 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000

Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of ₹ 4,00,000 divided into 40,000 Equity Shares of ₹ 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at ₹ 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of ₹ 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

Internal Reconstruction of a Company

8. Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows-

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)

2		**Non-current liabilities**		
	A	Long-term borrowings	3	55,000
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
				5,05,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		**Current assets**		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to accounts:

1	**Share Capital**		₹
	Equity share capital		
	20,000 Equity Shares of ₹ 10 each		2,00,000
	Preference share capital		
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)		1,50,000
			3,50,000
2	**Reserves and surplus**		
	Securities premium		10,000
	Profit and loss account (debit balance)		(80,000)
			(70,000)
3	**Long-term borrowings**		
	Secured		
	9% Debentures (secured on the freehold property		50,000
	Accrued interest on 9% debentures		5,000
			55,000

4	**Property, Plant and Equipment**		
	Freehold property		1,20,000
	Leasehold property		85,000
	Plant and machinery		1,30,000
			3,35,000
5	**Intangible assets**		
	Goodwill		50,000
			50,000
6	**Non-current investments**		
	Non-Trade investments at cost		40,000
			40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i. The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.

ii. One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.

iii. The balance on Securities Premium Account was utilized and was transferred to capital reduction account.

iv. The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.

v. Plant and Machinery was written down to ₹ 1,00,000.

vi. Non-trade Investments were sold for ₹ 32,000.

vii. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.

viii. A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

Liquidation of Company

9. From the following Trial Balance of All Rounder Ltd., on 1st January, 2021, prepare liquidator's final statement of account:

Particulars	Debit (₹)	Credit (₹)
9% Preference Share Capital (2,500 Preference Shares at ₹100 each, fully paid)		2,50,000
Equity Share Capital: 4,000 Equity Shares at ₹100 each, fully paid.		4,00,000
4,000 Equity Shares at ₹100 each, ₹50 paid up		2,00,000
Plant	6,00,000	
Stock-in-Trade	7,20,000	
Sundry Debtors	1,70,000	
Sundry Creditors		4,42,000
Bank Balance	2,40,000	
Preliminary Expenses	12,000	
6% Mortgage Loan		4,60,000
Outstanding Liabilities for Expenses	-	50,000
Profit and Loss A/c (Trading Loss for the previous accounting year)	60,000	
Total	18,02,000	18,02,000

Following points should be kept in mind:

1. On 21st January, 2021, the Liquidator sold plant for ₹5,90,000 and stock-in-trade at 10% less than the Book Value. He realized 80% of Sundry Debtors, and incurred cost of collection of ₹3,700 (remaining Debtors are to be treated as bad).
2. The Loan Mortgage was discharged as on 31st January, 2021, along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding Expenses paid at 20% less.
3. Preference Share Dividend is due for one year and paid with final payment.
4. Liquidation Expenses incurred are ₹3,600, and Liquidator's Remuneration is settled at 4% on disbursement to shareholders (preference and equity) excluding preference dividend, subject to minimum of ₹20,000. Liquidator's remuneration to be rounded off to the multiple of ten ₹.

Financial Statements of Insurance Companies

10. From the following information as on 31st March, 2020 from the books of Ocean Insurance Company Limited, which is engaged in Marine Insurance business prepare the Revenue Account.

	Particulars			Direct Business ₹	Re-Insurance ₹
I	Premium				
	Received			22,00,000	3,40,000
	Receivable	-	1st April, 2019	1,20,000	21,000
			31St March, 2020	1,80,000	28,000
	Premium paid			2,50,000	-
	Payable	-	1st April, 2019		22,000
			31st March, 2020		40,000
II	Claims:				
	Paid			16,50,000	1,25,000
	Payable	-	1st April, 2019	98,000	12,000
			31st March, 2020	1,90,000	24,000
	Received				1,05,000
	Receivable	-	1st April, 2019	-	12,000
			31St March, 2020	-	10,000
III	Commissions				
	On Insurance accepted			1,40,000	12,000
	On Insurance ceded			-	16,000

Other expenses and income related with this business are as follows:

Salaries - ₹ 2,50,000; Rent, Rates and Taxes - ₹ 15,000; Printing and Stationery - ₹ 22,000; Interest, Dividend and Rent Received (Net) - ₹ 1,10,000; Income tax deduction at source - ₹ 24,000; Legal expenses (Inclusive of ₹ 15,000 in connection with the settlement of claims)- ₹ 50,000;

Balance of fund as on 1st April, 2019 was ₹ 25,50,000. It was decided to maintain this at ₹ 24,55,950 on 31.3.2020.

Financial Statements of Banking Companies

11. (a) Forward Bank Ltd furnishes the following information as on 31st March, 2020.

	Amount in ₹
Bills Discounted	82,23,000
Rebate on bills discounted as on 1st April, 2019	1,32,960
Discount received	6,33,990

Details of bills discounted is as given below:

Value of Bills (₹)	Due Date	Rate of Discount
10,95,000	15th June, 2020	14%
30,00,000	25th June, 2020	12%
16,92,000	5th July, 2020	16%
24,36,000	15th July, 2020	16%

(i) Calculate the rebate on bills discounted as on 31st March, 2020. Take 365 days in year.

(ii) Pass necessary Journal Entries.

(b) State with reason whether the following cash credit account is NPA or not:

	₹
Sanctioned limit	50,00,000
Drawing power	44,00,000
Amount outstanding continuously 01-01-20 to 31-03-20	40,00,000
Total interest debited for the above period	3,20,000
Total credits for the above period	1,80,000

Departmental Accounts

12. Below balances are taken from the records of M/s Big Shopping Complex for the year ended 31st March, 2020:

Details	Department P (₹)	Department Q (₹)
Opening Stock	1,00,000	80,000
Purchases	13,00,000	18,20,000
Sales	20,00,000	30,00,000

- Closing stock of Department P was ₹ 2,00,000 including goods transferred from Department Q for ₹ 40,000.
- Closing stock of Department Q was ₹ 4,00,000 including goods transferred from Department P for ₹ 60,000.
- Opening stock of Department P included goods for ₹ 20,000 transferred from Department Q and Opening stock of Department Q included goods for ₹ 30,000 transferred from Department P.
- Assume that above transfer amounts are cost to the transferee departments and the rate of gross profit is uniform from year to year.

- Selling expenses incurred ₹ 2,50,000 for both the departments.

From the above information, prepare Departmental Trading Account and Profit & Loss Account for the year ended 31st March 2020, after adjusting the unrealized departmental profits, if any.

Accounting for Branches

13. Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2020.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal to 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch from head office.

The following details for the year ended 31st March, 2020 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,32
Sales	3,61,280		
Manager's commission paid on account	2,400		

From the above details, you are required to calculate the commission due to manager for the year ended 31st March, 2020.

Framework for Preparation and Presentation of Financial Statements

14. (a) With regard to financial statements, name any five qualitative characteristics and elements.

(b) Aman started a business on 1st April 2020 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31st March, 2021, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 2020-21 if Financial Capital is maintained at historical cost.

Accounting Standards

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

15. (a) A case is going on between ABC Ltd. and Tax department on claiming the exemption for certain items, for the year 2019-2020. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. The financial statements were approved on 31st May, 2020. Shall

company account for such tax in the year 2019-2020 or shall it account for in the year 2020-2021?

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Polices

(b) XYZ Ltd.'s tax assessment for assessment year 2017-18 has been completed on 14th February, 2020 with a demand of ₹5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹3.70 crore. XYZ Ltd. is in the process of finalizing its account for the year ended 31st March, 2020. The company seeks your advice for this.

AS 11 The Effects of Changes in Foreign Exchange Rates

16. (a) Classify the following items into Monetary and Non-monetary:

    (i) Share capital; (ii) Trade Payables; (iii) Cash balance; (iv) Property, plant and equipment

    (b) Trade payables of CAT Ltd. include amount payable to JBB Ltd., ₹ 10,00,000 recorded at the prevailing exchange rate on the date of sales, transaction recorded at US $1 = ₹ 80.00. The exchange rate on balance sheet date (31.03.2020) was US $1 = ₹ 85.00. You are required to calculate the amount of exchange difference and also explain the accounting treatment needed for this as per AS 11 in the books of CAT Ltd.

AS 12 Accounting for Government Grants

17. (a) Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020.

    The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

    (b) ABC Ltd. received two acres of land received for set up of plant. It also received ₹ 2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis. How should ABC Ltd. recognize these government grants in its books of accounts?

AS 11 The Effects of Changes in Foreign Exchange Rates and AS 16 Borrowing Costs

18. Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2019-20 for its residential project at 4 %. The interest is payable at the end of the Financial Year. At the time of availment, exchange rate was ₹ 56 per US $ and the rate as on 31st March, 2020 ₹ 62 per US $. If Shan Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. You are required to compute Borrowing Cost and exchange difference for the year ending 31st March, 2020 as per applicable Accounting Standards.

AS 19 Leases

19. (a) Sooraj Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sooraj Limited is not sure about the treatment of these lease rentals and seeks your advice. (use annuity factor at @ 15% for 3 years as 3.36)

AS 20 Earnings Per Share

(b) 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 exchange for the settlement of a liability of the enterprise,

(iv) Equity Shares issued for rendering of services to the enterprise,

(v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument,

(vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

AS 26 Intangible Assets

20 (a) Naresh Ltd. had the following transactions during the financial year 2019-2020:

(i) Naresh Ltd. acquired running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

(ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2019-2020.

(iii) On 20th August, 2019, Naresh Ltd, incurred costs of ₹ 2,40,000 to register the patent. Naresh Ltd. expects the patent's economic life to be 8 years.

Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) Explain whether provision is required in the following situations in line with AS 29:

(i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation;

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.

SUGGESTED ANSWERS

1. Statement showing distribution of cash amongst the partners

		Creditors	*Y's Loan*		*Capitals*	
				X (₹)	*Y (₹)*	*Z (₹)*
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1st Instalment amount with the firm ₹ (1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	(12,000)					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	(746)					
	62,954					

Less: Payment made to creditors	(62,954)	(62,954)				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to creditors	(646)	(646)				
Transferred to P& L A/c		2,400				
	67,962					
Less: Payment for Y's loan A/c	(18,000)		(18,000)			
Amount available for distribution to partners	49,962		nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	(4,542)					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	(2,000)					(2,000)
	43,420					48,000
Less: Paid to X and Z in 5:4 (W.N.)	(18,000)			(10,000)	-	(8,000)
Balance due	25,420			50,000	40,000	40,000
Less: Paid to X, Y & Z in 5:4:4	25,420			(9,778)	(7,821)	(7,821)
	Nil					
Amount of 3rd instalment	40,000			40,222	32,179	32,179
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)	(400)					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)	(3,600)					
	36,000					

Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	(36,000)			(13,846)	(11,077)	(11,077)
	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	(280)					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	(2,520)					
	25,200					
Less: Paid to X, Y and Z in 5:4:4	(25,200)			(9,692)	(7,754)	(7,754)
	Nil					
Loss suffered by partners				16,684	13,348	13,348

Working Note:

(i) ₹ 1100 added to the first instalment received on sale of assets represents the Cash in Bank

(ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹ 3046. However, since the creditors were settled for ₹ 63,600 only the balance ₹646 were paid and the balance ₹ 2400 was transferred to the Profit & Loss Account.

(iii) **Highest Relative Capital Basis**

	X ₹	Y ₹	Z ₹
Balance of Capital Accounts (A)	60,000	40,000	50,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	12,000	10,000	12,500
Capital in profit sharing ratio taking Y's Capital as base (B)	50,000	40,000	40,000
Excess of X's Capital and Z's Capital (A-B) =(C)	10,000	nil	10,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	2,000		2,500

Capital in profit sharing ratio taking X's Capital as base (D)	10,000		8,000
Excess of Z's Capital (C-D)=(E)	nil		2,000

Therefore, firstly ₹2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto ₹ 18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

2. **"Designated partner"** means any partner designated as such pursuant to section 7 of the Limited Liability Partnerships (LLPs) Act, 2008. As per section 7 of the LLP Act, every limited Liability Partnership shall have at least 2 designated Partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of Limited Liability Partnership in which all the partners are bodies corporate or in which one or more partners are Individuals and bodies corporate, at least 2 individuals who are partners of such limited liability Partnership or Nominees of such Bodies corporate shall act as designated partners

"Liabilities of designated partners"

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(a) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and;

(b) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

3. **(a)** (i) ***Vesting Period:*** It is the time period between grant date and the date on which all the specified vesting conditions of an employee share-based payment plan is to be satisfied.

(ii) ***Grant Date:*** It is the date at which the enterprise and its employees agree to the terms of an employee share-based payment plan. At grant date, the enterprise confers on the employees the right to cash or shares of the enterprise, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process, (for example, by shareholders), grant date is the date when that approval is obtained.

(b) Calculation of ESOP cost to be amortized

	2018-2019	2019-2020
Fair value of options per share	₹ 18	₹ 18
No. of options expected to vest under the scheme	93,000 (930 x 100)	88,000 (880 x 100)
Fair value of options	₹ 16,74,000	₹ 15,84,000
Value of options recognized as expenses	8,37,000 (₹ 16,74,000 / 2)	7,47,000 (₹ 15,84,000 – ₹ 8,37,000)

4. In the books of Vriddhi Infra Ltd.

Journal Entries

Date	Particulars		Dr.	Cr.
2020			₹	₹
April 21	Bank A/c	Dr.	2,50,000	
	To Investment A/c			2,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
April 25	Equity share capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back A/c			2,25,000
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)			
	General Reserve A/c OR P&L A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free reserves to capital redemption reserve account as per the law)			
May 1	Capital redemption reserve A/c	Dr.	1,06,250	
	To Bonus shares A/c (W.N.1)			1,06,250

	(Being the utilization of capital redemption reserve to issue bonus shares)		
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	1,06,250	1,06,250

Working Note:

Amount of bonus shares = $\left[(1{,}00{,}000 - 15{,}000) \times \frac{1}{8}\right] \times 10$ **=** ₹ 1,06,250

5. **Debenture Redemption Reserve Account**

Date	Particulars	₹	Date	Particulars	₹
31st March, 2021	To General reserve A/c (Refer Note)	7,50,000	1st April, 2020	By Balance b/d	2,50,000
			1st April, 2020	By Profit and loss A/c (Refer Note 1)	5,00,000
		7,50,000			7,50,000

10% Secured Bonds of Govt. (DRR Investment) A/c

		₹			₹
1st April, 2020	To Balance b/d	11,25,000	31st March, 2021	By Bank A/c	11,25,000
		11,25,000			11,25,000

Bank Account

		₹			₹
31st March, 2021	To Balance b/d	80,00,000	31st March, 2021	By Debenture holders A/c (110% of 75,00,000)	82,50,000
	To Interest on DRR Investment (11,25,000X 10%)	1,12,500			
	To DRR Investment A/c	11,25,000		By Balance c/d	9,87,500
		92,37,500			92,37,500

Working note –

Calculation of DRR before redemption = 10% of ₹ 75,00,000 = 7,50,000

Available balance = ₹ 2,50,000; DRR required =7,50,000 – 2,50,000= ₹ 5,00,000.

6. In firm underwriting the underwriter agrees to subscribe upto a certain number of shares / debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken by the underwriter in addition to his liability for securities not subscribed by the public. Under partial underwriting along with firm underwriting, unless otherwise agreed, individual underwriter does not get the benefit of firm underwriting in determination of number of shares/debentures to be taken up by him.

7. **In the books of Mohan Ltd.**

(i) **Realisation Account**

	₹		₹
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference share holders A/c (W.N.2)	5,400		
	5,60,400		5,60,400

(ii) **Equity shareholders' Account**

	₹		₹
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		3,00,000

* Alternatively, expenses may also be routed through realization account.

In the books of Ravi Ltd.

(i) **Bank Account**

	₹		₹
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		1,09,600

(ii) **Balance Sheet as at 31st March, 2020**

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

		₹
1.	Share Capital	
	Authorised share capital	
	40,000 equity shares of ₹ 10 each	4,00,000
	Issued and Subscribed	
	40,000 shares of ₹ 10 each fully paid up	4,00,000

	(out of the above, 30,540 (W.N.2) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
6,000 equity shares @ ₹ 10	60,000
For arrears of dividend: (6,000 x ₹ 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ ₹ 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	₹		₹
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

8. Journal entries in the books of M/s Recover Ltd

Particulars		**Dr.** ₹	**Cr.** ₹
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Capital reduction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Capital reduction A/c (₹ 9)			1,80,000
(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to capital reduction ac as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
Securities Premium A/c	Dr.	10,000	
To Capital reduction A/c			10,000
(Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)			
9% Debentures A/c	Dr.	50,000	
Accrued interest on debentures A/c	Dr	5,000	
Bank A/c	Dr.	20,000	
Capital reduction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to			

company by debenture holders as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Capital reduction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Capital reduction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Capital reduction A/c	Dr.	80,000	
To Profit and loss A/c			80,000
(Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).			
Capital reduction A/c	Dr.	30,800	
To Capital reserve A/c			30,800
(The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Bank Overdraft		90,000
				3,06,300
		Total		
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000
2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	**Share Capital**	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
		1,05,500
2	**Reserves and surplus**	
	Capital reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000

	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

9. Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Sundry Assets realized:		Liquidator's Remuneration (Working note)	25,020
Bank Balance	2,40,000	Liquidation Expenses(given)	3,600
Plant	5,90,000	Secured Creditors:	
		6% Mortgage	
Debtors 1,36,000 (1,70,000 X 80%)		Loan 4,60,000	
Less: Realization Expenses (3,700)	1,32,300	Add: Interest 13,800 (4,60,000×6%×6/12)	4,73,800
Stock (7,20,000× 90%)	6,48,000	Unsecured Creditors:	
		Creditors 4,19,900 (4,42,000 X 95%)	
		Outstanding Expenses 40,000	4,59,900
		Preference Shareholders:	
		Capital 2,50,000	
		Dividend 22,500 (for 1 year @ 9%)	2,72,500
		Equity Shareholders: (Working note)	
		Fully Paid Shares 2,87,740 (4,000×71.935)	
		Partly Paid Shares 87,740 (4,000×21.935)	3,75,480
	16,10,300		16,10,300

Working Note:

Computation of Liquidations' Remuneration and Payment to Equity Shareholders

		₹
(a)	Total of Receipts (from above account)	16,10,300
(b)	Total Payments before Final Payment to Members (excluding Preference Capital) and Liquidator's Remuneration (3,600 + 4,73,800 + 4,59,900 + Pref Dividend 22,500)	(9,59,800)
(c)	Balance left for Liquidator's Remuneration, Pref. Capital and Equity Shareholders	6,50,500
(d)	Liquidator's Remuneration (6,50,500 × 4/104 = ₹25,020 or ₹20,000 whichever is higher)	(25,020)
(e)	Refund of Capital to Preference Shareholders	(2,50,000)
(f)	Balance money before Notional Call	3,75,480
(g)	Notional Call on 4,000 Partly Paid Shares at ₹50 each (to make all Shares ₹100 paid up)	2,00,000
(h)	Surplus Cash balance after Notional Call	5,75,480
(i)	Number of Equity Shares deemed fully paid (4,000 + 4,000)	8,000
(j)	Hence, Refund on every ₹100 paid up Share (**h ÷ i) =** ₹5,75,480 ÷ 8,000	₹71.935
(k)	Loss per ₹100 paid up Equity Share = Paid Up Value ₹100 – Refund as above ₹71.935	28.065
(l)	Refund per ₹50 Partly Paid-Up Equity Share = Paid Up Value ₹50 – Loss as above ₹28.065	21.935

10. Form B – RA (Prescribed by IRDA)

Revenue Account for the year ended 31st March, 2020

(Marine Insurance Business)

	Schedule	*Current Year*	*Previous Year*
		₹	₹
Premiums earned (net)	1	24,33,050	
Profit/(Loss) on sale/redemption of investments		-	
Others (to be specified)		-	
Interest, Dividends and Rent – Gross (Net + TDS) (1,10,000 +24,000)		1,34,000	
Total (A)		25,67,050	

Claims incurred (net)	2	17,91,000	
Commission	3	1,36,000	
Operating expenses related to Insurance business	4	3,22,000	
Total (B)		22,49,000	
Operating Profit from Marine Insurance business (A-B)		3,18,050	

Schedules forming part of Revenue Account

	Current Year	*Previous Year*
	₹	₹
Schedule –1		
Premium earned (net) (22,60,000 +3,47,000)		
Total Premiums earned	26,07,000	
Less: Premium on reinsurance ceded	(2,68,000)	
Total Premium earned (net)	23,39,000	
Change in provision for unexpired risk (Required provision – existing reserve) (₹24,55,950– ₹ 25,50,000)	94,050	
Net Premium earned	24,33,050	
Schedule – 2		
Claims incurred (net)(16,85,000 +2,04,000 - 98,000)	17,91,000	
Schedule – 3		
Commission paid		
Direct	1,40,000	
Add: Re-insurance accepted	12,000	
Less: reinsurance ceded	(16,000)	
	1,36,000	
Schedule – 4		
Operating expenses related to insurance business		
Employees' remuneration and welfare benefits	2,50,000	
Rent, Rates and Taxes	15,000	
Printing and Stationery	22,000	

Legal and Professional charges	35,000	
	3,22,000	

Working Notes:

1.	**Total Premium Income**	*Direct*	*Re-insurance*
		₹	₹
	Received	22,00,000	3,40,000
	Add: Receivable on 31st March, 2020	1,80,000	28,000
		23,80,000	3,68,000
	Less: Receivable on 1st April, 2019	(1,20,000)	(21,000)
		22,60,000	3,47,000

Total premium income ₹ 22,60,000 + ₹ 3,47,000 = ₹ 26,07,000

2.	**Premium Expense on reinsurance**	₹
	Premium Paid during the year	2,50,000
	Add: Payable on 31st March, 2020	40,000
		2,90,000
	Less: Payable on 1st April, 2019	(22,000)
		2,68,000
3.	**Claims Paid**	
	Direct Business	16,50,000
	Re-insurance	1,25,000
	Legal Expenses	15,000
		17,90,000
	Less: Re-insurance claims received	(1,05,000)
		16,85,000
4.	**Claims outstanding as on 31st March, 2020**	
	Direct	1,90,000
	Re-insurance	24,000
		2,14,000
	Less: Recoverable from Re-insurers on 31st March, 2020	(10,000)
		2,04,000
5.	**Claims outstanding as on 1st April, 2019**	
	Direct	98,000

	Re-insurance	12,000
		1,10,000
	Less: Recoverable from Re-insurers on 1st April, 2019	(12,000)
		98,000

11. (a) In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

Value (₹)	Due Date	Days after 31-03-2020	Discount %	Discount Amount ₹
10,95,000	15-06-2020	(30+31 + 15) = 76	14%	31,920
30,00,000	25-06-2020	(30 + 31 + 25) = 86	12%	84,822
16,92,000	05-07-2020	(30 + 31 + 30 + 5) = 96	16%	71,203
24,36,000	15-07-2020	(30 + 31 + 30 + 15) = 106	16%	1,13,191
		Rebate on bills discounted as on 31.3.2020		3,01,136

The journal entries will be as follows :

		Dr. ₹	Cr. ₹
Rebate on Bills Discounted A/c	Dr.	1,32,960	
To Discount on Bills A/c			1,32,960
(Being the transfer of Rebate on Bills Discounted on 1.4.2019 to Discount on Bills Account)			
Discount on Bills A/c	Dr.	3,01,136	
To Rebate on Bills Discounted A/c			3,01,136
(Being the transfer of rebate on bills discounted required on 1.4.2020 from discount on Bills Account)			
Discount on Bills A/c	Dr.	4,65,814	
To Profit and Loss A/c			4,65,814
(Being the amount of discount on Bills transferred to Profit and Loss Account)			

Working Note:

The amount of discount to be credited to the Profit and Loss Account will be:

Transfer from Rebate on bills discount as on 1.4.19	1,32,960
Add: Discount received during the year ended 31-3-2020	6,33,990
	7,66,950
Less: Rebate on bills discounted as on 31.3.2020	(3,01,136)
	4,65,814

(b)

	₹
Sanctioned limit	50,00,000
Drawing power	44,00,000
Amount outstanding continuously from 1.01.2020 to 31.03.2020	40,00,000
Total interest debited	3,20,000
Total credits	1,80,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No

The cash credit account is NPA because the credit in the account is not sufficient to cover the interest debited during the period and the amount is 'overdue' for a continuous period of 90 days.

12. Departmental Trading and Profit & Loss A/c for M/s Big Shopping Complex

For the year ended 31st March 2020

Details	Deptt. P (₹)	Deptt. Q (₹)	Details	Deptt. P (₹)	Deptt. Q (₹)
To Opening Stock	1,00,000	80,000	By Sales	20,00,000	30,00,000
To Purchases	13,00,000	18,20,000	By Closing Stock	2,00,000	4,00,000
To Gross Profit	8,00,000	15,00,000			
	22,00,000	34,00,000		22,00,000	34,00,000
To Selling Exp (in ratio of sales)	1,00,000	1,50,000	By Gross Profit	8,00,000	15,00,000
To Profit transferred to General P&L A/c	7,00,000	13,50,000			
	8,00,000	15,00,000		8,00,000	15,00,000

General Profit and Loss A/c for M/s Big Shopping Complex

For the year ended 31st March 2020

Details	Amount (₹)	Details	Amount (₹)
To Stock Reserve		By Profit transferred from	
Deptt. P WN 1 & 2		Deptt. P	7,00,000
50% x (40,000 – 20,000)	10,000	Deptt. Q	13,50,000
Deptt. Q WN 1 & 3			
40% x (60,000 – 30,000)	12,000		
To Net Profit	20,28,000		
	20,50,000		20,50,000

Working Notes:

1. Gross Profit Ratios are : Deptt. P = 8,00,000 / 20,00,000 = 40% and of Deptt. Q = 15,00,000 / 30,00,000 = 50%.
2. Stock Reserve for Deptt. P shall be adjusted as per the gross profit ratio of Deptt. Q i.e. 50% (On Closing Stock – Opening Stock)
3. Stock Reserve for Deptt. Q shall be adjusted as per the gross profit ratio of Deptt. P i.e. 40% (On Closing Stock – Opening Stock)

13. In the books of Alpha Ltd.

Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	*Particulars*	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	*Particulars*	₹
To Opening stock [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280

To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By Goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: **Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	*Less:* 25% of cost of deficiency in stock [25% of (75% of ₹ 1,280)]	(240)
C	Commission for the year [A-B]	3,784
D	*Less:* Paid on account	(2,400)
E	Balance due (C-D)	1,384

14. (a) (i) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(ii) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b)

Particulars	***Financial Capital Maintenance at Historical Cost (₹)***
Closing equity (₹ 30 x 1,20,000 units)	36,00,000 represented by cash
Opening equity	1,20,000 units x ₹ 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

15. (a) To decide whether, the event is adjusting or not adjusting two conditions need to be satisfied: (a) There has to be evidence; (b) The event must have been related to period ending on reporting date. Here both the conditions are satisfied. Court order is a conclusive evidence which has been received before approval of the financial statements since the liability is related to earlier year. The event will be considered as an adjusting event and accordingly the amount will be adjusted in accounts of 2019-2020.

(b) Since the company is not appealing against the addition of ₹ 1.70 crore (₹ 5.40 crore less ₹ 3.70 crore), therefore, the same should be provided/ expensed off in its accounts for the year ended on 31st March, 2020. However, the amount paid under protest can be kept under the heading 'Long-term Loans & Advances / Short-term Loans and Advances' as the case may be alongwith disclosure as contingent liability of ₹ 3.70 crore.

16. (a) Share capital - Non-monetary

Trade Payables - Monetary

Cash balance - Monetary

Property, plant and equipment - Non-monetary

(b) Amount of Exchange difference and its Accounting Treatment

	Foreign Currency Rate	**₹**
Trade payables		
Initial recognition US $ 12,500 (₹10,00,000/80)	1 US $ = ₹ 80	10,00,000
Rate on Balance sheet date	1 US $ = ₹ 85	
Exchange Difference loss US $ 12,500 x ₹ (85-80)		62,500
Treatment:		
Debit Profit and Loss A/c by ₹ 62,500 and Credit Trade Payables		

Thus, Exchange Difference on trade payables amounting ₹ 62,500 is required to be transferred to Profit and Loss.

17. (a) As per the facts of the case, Hygiene Ltd. had received a grant of ₹ 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

(b) ABC Ltd. should recognize the grants in the following manner:

- As per AS 12, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognised at nominal value in the balance sheet.

- The standard provides option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per provisions of the standard. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of ₹ 2 lakhs is deducted from the cost of the machinery. Machinery will be recognised in the books at ₹ 10 lakhs – ₹ 2 lakhs = ₹ 8 lakhs and depreciation will be charged on it as follows:

  ₹ 8 lakhs/ 5 years = ₹ 1.60 lakhs per year.

  Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged.

  ₹ 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this cases, ₹ 40,000 [₹ 2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

18. (i) Interest for the period 2019-20

= US $ 10 lakhs x 4% × ₹ 62 per US $ = ₹ 24.80 lakhs

(ii) Increase in the liability towards the principal amount

= US $ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency

= US $ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing = ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs. Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

19. (a) As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment• amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	3.36
Present Value of minimum lease payments (₹ 3 lakhs each year)	₹ 10.08 lakhs

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

(b) 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 on which settlement becomes effective

(iv) When the services are rendered

(v) Date when interest ceases to accrue

(vi) Date on which the acquisition is recognised.

• In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

20. (a) Naresh Ltd.

Balance Sheet (Extract relating to intangible asset) as on 31st March 2020

	Note No.	₹
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

(b) (i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation – Provision is recognised. Disclosures are required for the provision.

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources – No provision is recognised. Disclosures are required for the contingent liability.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote – No provision is recognised. No disclosure is required.