PAPER – 5: ADVANCED ACCOUNTING

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

A. Applicable for NOVEMBER, 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 corresponding 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 previous notifications, 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.

Statutory Liquidity Ratio (SLR) – Marginal Standing Facility (MSF) - Extension of Relaxation

(vide circular no. RBI/2020-21/91 DOR.No.Ret.BC.36/12.01.001/2020-21 February 05, 2021)

In reference to earlier circulars DOR.No.Ret.BC.52/12.01.001/2019-20 dated March 27, 2020, DOR.RRB.No.28/31.01.001/2020-21 dated December 4, 2020 and Press Release No.2020- 2021/401 dated September 28, 2020 on Marginal Standing Facility (MSF), the banks were allowed to avail of funds under the MSF by dipping into the Statutory Liquidity Ratio (SLR) up to an additional one per cent of their net demand and time liabilities (NDTL), i.e., cumulatively up to three per cent of NDTL. This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 providing comfort to banks on their liquidity requirements and also to enable them to meet their Liquidity Coverage Ratio (LCR) requirements. With a view to providing comfort to banks on their liquidity requirements, banks are allowed to continue with the MSF relaxation for a further period of six months, i.e., up to September 30, 2021.

Cash Reserve Ratio (CRR)

The cash reserve ratio (CRR) of all banks was reduced by 100 basis points to 3.00 per cent of their Net Demand and Time liabilities (NDTL) effective from the reporting fortnight beginning March 28, 2020 (vide Circular DOR.No.Ret.BC.49/12.01.001/2019-20 dated March 27, 2020). The dispensation was available for a period of one year ending March 26, 2021. As announced in the Statement on Developmental and Regulatory Policies dated February 05, 2021, it was decided to gradually restore the CRR in two phases in a non-disruptive manner. Accordingly, banks are required to maintain the CRR at 3.50 per cent of their NDTL effective from the reporting fortnight beginning March 27, 2021 and 4.00 per cent of their NDTL effective from fortnight beginning May 22, 2021

In exercise of the powers conferred under the sub-section (1) of Section 42 of the Reserve Bank Act, 1934 and sub-section (1) of Section 18 of the Banking Regulation Act, 1949 (10 of 1949), and in partial modification of the earlier notification DOR.No.Ret.BC.50/12.01.001/2019-20 dated March 27, 2020, the Reserve Bank of India notified (vide Notification DOR.No.Ret.BC.38/12.01.001/2020-21 dated 5th February, 2021) that the average Cash Reserve Ratio (CRR) required to be maintained by every bank shall be 3.50 per cent of its net demand and time liabilities effective from the reporting fortnight beginning March 27, 2021 and 4.00 per cent of net demand and time liabilities effective from fortnight beginning May 22, 2021.

VII. SLR holdings in Held to Maturity (HTM category)

(vide circular no. RBI/2020-21/94 DOR.No.MRG.BC.39/21.04.141/2020-21 dated February 5, 2021)

In reference to Statement on Developmental and Regulatory Policies dated February 5, 2021 and RBI circular DoR.No.BP.BC.22/21.04.141/2020-21 dated October 12, 2020, banks are permitted to exceed the limit of 25 per cent of the total investments under Held to Maturity (HTM) category provided:

a) the excess comprises only of SLR securities; and

b) total SLR securities held under HTM category is not more than 19.5 per cent of Net Demand and Time Liabilities (NDTL) as on the last Friday of the second preceding fortnight.

With respect to the limit stated in point (b) above, banks have been granted a special dispensation of enhanced HTM limit of 22 per cent of NDTL, for SLR securities acquired between September 1, 2020 and March 31, 2021, until March 31, 2022. The enhanced limit was required to be restored in a phased manner over three quarters beginning with the quarter ending June 30, 2022.

It has now been decided to extend the dispensation of enhanced HTM of 22 per cent to March 31, 2023 to include SLR securities acquired between April 1, 2021 and March 31, 2022. Thus, banks may exceed the limit specified in point (b) above upto 22 per cent of NDTL (instead of 19.5 per cent of NDTL) till March 31, 2023, provided such excess is on account of SLR securities acquired between September 1, 2020 and March 31, 2022.

The schedule for restoring the enhanced HTM limit to 19.5 per cent of NDTL specified in the circular dated October 12, 2020 referred to above is accordingly modified. The enhanced HTM limit shall be restored to 19.5 percent in a phased manner, beginning from the quarter ending June 30, 2023, i.e. the excess SLR securities acquired by banks during the period September 1, 2020 to March 31, 2022 shall be progressively reduced from the HTM category such that the total SLR securities under the HTM category as a percentage of the NDTL does not exceed:

a) 21.00 per cent as on June 30, 2023

b) 20.00 per cent as on September 30, 2023

c) 19.50 per cent as on December 31, 2023

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year and such shifting will normally be allowed at the beginning of the accounting year. However, in order to enable banks to shift their excess SLR securities from the HTM category to available for sale (AFS)/ held for trading (HFT) to comply with the instructions as indicated in paragraph 5 above, it has been decided to allow such shifting of the excess securities during the quarter in which the HTM ceiling is brought down. This would be in addition to the shifting permitted at the beginning of the accounting year.

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. Not applicable for November, 2021Examination

Non-Applicability of Ind AS for November, 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 November, 2021 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of Partnership Firm

1. P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2021 was as follows:

Balance Sheet as on 31st March, 2021

Equity and Liabilities		₹	Assets	₹
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

Limited Liability Partnerships

2. Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following:

   (1) Applicable Law

   (2) Perpetual Succession

   (3) Number of Partners

   (4) Ownership of Assets

   (5) Liability of Partners/Members

   (6) Principal-Agent Relationship.

Accounting for ESOPs

3. (a) On 1st April, 2020, XYZ Ltd., offered 150 shares to each of its 750 employees at ₹ 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in period on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 72 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 67 per share on the grant date. On 31st March, 2021, 600 employees accepted the offer and paid ₹ 60 per share purchased. Face value of each share is ₹ 10. You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

   (b) Define the following terms:

   (i) Vesting

   (ii) Exercise Period

   (iii) Grant date

   (iv) Exercise Price

Buy Back of Securities

4. Rohan Ltd. furnishes the following information as at 31-03-2021.

	(in ₹)	(in ₹)
Share Capital:		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	10,00,000	60,00,000
Reserves & Surplus:		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	25,50,000	43,50,000
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
Property, Plant and equipment		1,00,75,000
Current Assets:		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000

The shareholders adopted the following resolution on 31st March, 2021:

(1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.

(2) To finance the buy-back of shares, company:

   (a) Issues 3,000, 14% debentures of ₹ 100 each at a premium of 20%.

   (b) Issues 2,500, 10% preference shares of ₹ 100 each.

(3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.

(4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.

(5) Later, the company issue three fully paid up equity shares of ₹ 20 each by way of bonus for every 15 equity shares held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions.

Redemption of Debentures

5. Jeet Limited (listed company) recently made a public issue in respect of which the following information is available:

   (a) No. of partly convertible debentures issued- 1,00,000; face value and issue price- ₹ 100 per debenture.

   (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.2020.

   (c) Date of closure of subscription lists- 1.5.2020, date of allotment- 1.6.2020, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

   (d) Underwriting Commission- 2%.

   (e) Number of debentures applied for - 75,000.

   (f) Interest payable on debentures half-yearly on 30th September and 31st March.

   Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2021 (including cash and bank entries).

Amalgamation of Companies

6. Heera Ltd. and Rita Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of Heera Ltd. and Rita Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for shares in HR Ltd.

   Heera Ltd. and Rita Ltd. make available the following information as on 31st March, 2021 (the date of amalgamation):

	Heera Ltd. ₹	Rita Ltd. ₹
Property, plant and Equipment	7,20,000	10,80,000
Inventories	3,60,000	6,60,000
Trade receivables	4,80,000	7,80,000
Cash at Bank	3,00,000	-
Share Capital	6,00,000	8,40,000
Reserves	10,20,000	6,00,000
Bank Overdraft	-	5,40,000
Trade payables	2,40,000	5,40,000

The consideration was to be based on the net assets of the companies as shown above but subject to an additional payment to Heera Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2021. The weights for this purpose for the years 2018-19, 2019-20 and 2020-21 were agreed as 1, 2 and 3 respectively.

The profit had been:

2018-19 ₹ 3,00,000; 2019-20 ₹ 5,25,000 and 2020-21 ₹ 6,30,000.

The shares of HR Ltd. were to be issued to Heera Ltd. and Rita Ltd.at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, HR Ltd. proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to Heera Ltd. and Rita Ltd.

You are required to calculate the number of shares issued to Heera Ltd. and Rita Ltd. and prepare required journal entries in the books of HR Ltd.

Internal Reconstruction of a Company

7. Shine Ltd. provides the following information as on 31st March, 2021:

(₹in '000)

	Amount
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350

Property, Plant and Equipment	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account (Dr. balance)	2,100

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2021.

(i) All the existing equity shares are reduced to ₹ 4 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.

(iv) Investments are to be brought to their market value.

(v) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.

(vi) The balance of Profit and Loss Account to be written off and balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.

(vii) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

(viii) Property, plant and equipment to be written down to 80%.

You are required to give journal entries for the above transactions and prepare capital reduction account.

Underwriting of Shares

8. X Ltd. issued 1,20,000 Equity Shares which were underwritten as follows:

A & Co	72,000 Equity Shares
B & Co.	30,000 Equity Shares
C& Co.	18,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

A & Co	9,600 Equity Shares
B & Co	12,000 Equity Shares
C& Co.	3,600 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 60,000 Equity Shares.

The marked Applications were as under:

A & Co	12,000 Equity Shares
B & Co.	15,000 Equity Shares
C& Co.	6,000 Equity Shares

The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten. You are required to show the allocation of liability. Workings will be considered as a part of your answer.

Liquidation of Company

9. The position of Neha Ltd. on its liquidation is as under:

   5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

   2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

   Unsecured Creditors ₹ 99,000

   Liquidation Expenses ₹ 1,000

   Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

   You are required to prepare Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.

Financial Statements of Insurance Companies

10. Prepare Revenue Account of safe Insurance Co. engaged in marine insurance business for the year ended 31st March, 2021:

	Particulars	Direct Business (₹)	Re-insurance (₹)
I.	Premium		
	Received	3,60,000	38,000
	Receivable – 1st April, 2020	10,000	1,600
	- 31st March, 2021	16,000	1,800
	Premium Paid	-	24,000
	Premium Payable – 1st April, 2020	-	1,000
	- 31st March, 2021	-	2,200
II.	Claims		
	Paid	1,54,000	14,000
	Payable – 1st April, 2020	78,000	1,500

	- 31st March, 2021	16,000	4,200
	Received	-	17,000
	Receivable – 1st April, 2020	-	1,400
	- 31st March, 2021	-	1,900
III.	Commission		
	On insurance accepted	96,000	5,600
	On insurance ceded	-	8,000

Details of Other Expenses & Income is as below:

	₹
Establishment Expenses	30,000
Rent, rate & taxes	14,000
Printing & Stationery	1,800
Income from Dividend	18,000
Legal Expenses (Inclusive of ₹ 1,200 in connection with settlement of claims)	2,000

Balance of fund as on 1st April, 2020 was ₹ 3,00,000. Fund required to be maintained at ₹ 3,50,000 on 31.3.2021.

Financial Statements of Banking Companies

11. From the following information of Sun Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2021 after providing 35% of the profits towards provision for taxation and transferring 25% of the profit to Statutory Reserves:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of	24	Payment to Provident Fund	56

Credit			
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

	₹ in lakhs	
	Earned	Collected
Interest on NPA is as follows:		
Cash Credit	164	80
Term Loans	90	20
Overdraft	150	50
Classification of Non-performing Advances:		
Standard		60
Sub-standard-fully secured		22
Doubtful assets-fully unsecured		40
Doubtful assets covered fully by security:		
Less than 1 year		6
More than 1 year upto 3 years		3
More than 3 years		2
Loss Assets		38

Departmental Accounts

12. M/s. Hero is a Departmental Store having three departments X, Y and Z. The information regarding three departments for the year ended 31st March, 2021 are given below:

Particulars	Dept. X	Dept. Y	Dept. Z
Opening Stock	18,000	12,000	10,000
Purchases	66,000	44,000	22,000
Debtors at end	7,500	5,000	5,000
Sales	90,000	67,500	45,000

Closing Stock	22,500	8,750	10,500
Value of furniture in each Department	10,000	10,000	5,000
Floor space occupied by each Dept. (in Sq. ft.)	1,500	1,250	1,000
Number of employees in each Department	25	20	15
Electricity consumed by each Department (in units)	300	200	100

Additional Information:

	Amount (₹)
Carriage inwards	1,500
Carriage outwards	2,700
Salaries	24,000
Advertisement	2,700
Discount allowed	2,250
Discount received	1,800
Rent, Rates and Taxes	7,500
Depreciation on furniture	1,000
Electricity Expenses	3,000
Labour welfare expenses	2,400

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2021 after providing provision for Bad Debts at 5%.

Accounting for Branches

13. Lal & Co. of Jaipur has a branch in Patna to which goods are sent @ 20% above cost. The branch makes both cash & credit sales. Branch expenses are paid direct from Head office and the branch has to remit all cash received into the bank account of Head office. Branch doesn't maintain any books of accounts but sends monthly returns to the head office.

    Following further details are given for the year ended 31st March, 2020:

	Amount (₹)
Goods received from Head office at Invoice Price	4,20,000
Goods returned to Head office at Invoice Price	30,000
Cash sales for the year 2019-20	92,500
Credit Sales for the year 2019-20	3,12,500
Stock at Branch as on 01-04-2019 at Invoice price	36,000
Sundry Debtors at Patna branch as on 01-04-2019	48,000

Cash received from Debtors	2,19,000
Discount allowed to Debtors	3,750
Goods returned by customer at Patna Branch	7,000
Bad debts written off	2,750
Amount recovered from Bad debts previously written off as Bad	500
Rent, Rates & taxes at Branch	12,000
Salaries & wages at Branch	36,000
Office Expenses (at Branch)	4,600
Stock at Branch as on 31-03-2020 at cost price	62,500

Prepare necessary ledger accounts in the books of Head office by following Stock and Debtors method and ascertain Branch profit.

Framework for Preparation and Presentation of Financial Statements

14. What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain in brief.

Accounting Standards

AS 4 Contingencies and Events occurring after the Balance Sheet Date

15. XYZ Ltd. operates its business into various segments. Its financial year ended on 31st March, 2020 and the financial statements were approved by their approving authority on 15th June, 2020. During 2020-2021, the following material events took place:

    a. A major property was sold (it was included in the balance sheet at ₹ 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2021 at a price of ₹ 26,50,000.

    b. On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company.

    c. A claim for damage amounting to ₹ 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

    You are required to state with reasons, how each of the above items should be dealt with in the financial statements of XYZ Ltd.. for the year ended 31st March, 2020.

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

16. (a) There was a major theft of stores valued at ₹ 10 lakhs in the preceding year which was detected only during current financial year (2020-2021). How will you deal with this information in preparing the financial statements of R Ltd. for the year ended 31st March, 2021.

    (b) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization. Explain whether this will constitute a change in accounting policy or not as per AS 5.

AS 11 The Effects of Changes in Foreign Exchange Rates

17. Mona Ltd. purchased a plant for US$ 1,00,000 on 01st December 2020, payable after three months. Company entered into a forward contract for three months @ ₹ 49.15 per dollar. Exchange rate per dollar on 01st December was ₹ 48.85. How will you recognize the profit or loss on forward contract in the books of Mona Ltd for the year ended 31st March, 2021?

AS 20 Earnings Per Share

18. AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered into with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB Limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct as per provisions of AS 20?

AS 26 Intangible Assets

19. A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2021. This asset was acquired for ₹ 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. On 31st March 2021, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary considering the circumstances in line with provisions of AS 29?

SUGGESTED ANSWERS

1. **Books of P & Q Co.**

Realization Account

	Particulars		₹		Particulars		₹
To	Debtors	25,000		By	Creditors		20,000
To	Stock	35,000		By	Bank overdraft		5,000
To	Furniture	40,000		By	Bank:		
To	Machinery	60,000	1,60,000		Investment	25,000	
To	Bank:				Furniture	30,000	
	Creditors	20,000			Machinery	50,000	
	Bank overdraft	5,000			Debtors (90%)	22,500	
	Outstanding bill	2,000	27,000		Stock	20,125	
To	Profit transferred to:				Bad debts Recovered	1,245	1,48,870
	P's capital	1,310		By	P's capital		15,750
	Q's capital	1,310	2,620		(stock taken over)		
			1,89,620				1,89,620

Partners' Capital Accounts

		P	Q			P	Q
To	P's current Account	16,940		By	Balance b/d	1,00,000	50,000
To	Bank	83,060	68,810	By	Q's current Account		18,810
		1,00,000	68,810			1,00,000	68,810

Bank Account

		₹			₹
To	Balance b/d	30,000	By	Realization	27,000
To	Realization	1,48,870	By	P's capital	83,060
			By	Q's capital	68,810
		1,78,870			1,78,870

Working Note:

Partners' Current Accounts

		P	Q			P	Q
To	Balance b/d	10,000		By	Balance b/d		10,000
To	Realization	15,750		By	Reserves	7,500	7,500
To	Q's capital		18,810	By	Realization (profit)	1,310	1,310
				By	P's Capital	16,940	
		25,750	18,810			25,750	18,810

2.

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
Liability of Partners/Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
Principal-Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

3. **(a)** Fair value of an option = ₹ 67 – ₹ 60 = ₹ 7

Number of shares issued = 600 employees x 150 shares/employee = 90,000 shares

Fair value of ESOP = 90,000 shares x ₹ 7 = ₹ 6,30,000

Vesting period = 1 year

Expenses recognized in 2020-21 = ₹ 6,30,000

Date	Particulars		₹	₹
31.03.2021	Bank (90,000 shares x ₹ 60)	Dr.	54,00,000	
	Employees stock compensation expense A/c	Dr.	6,30,000	
	To Share Capital (90,000 shares x ₹ 10)			9,00,000
	To Securities Premium (90,000 shares x ₹ 57)			51,30,000
	(Being option accepted by 600 employees & payment made @ ₹ 60 per share)			
	Profit & Loss A/c	Dr.	6,30,000	
	To Employees stock compensation expense A/c			6,30,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)			

(b) **(i)** **Vesting**: It means the process by which the employee is given the right to apply for the shares of the company against the option granted to him under the employees' stock option plan.

(ii) **Exercise Period**: It is the time period after vesting within which the employee should exercise his right to apply for shares against the option vested in him in pursuance of the employees' stock option plan.

(iii) **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.

(iv) **Exercise Price**: It is the price payable by the employee for exercising the option granted to him in pursuance of employees' stock option scheme.

4. **Journal Entries in the books of Rohan Limited**

	Particulars		Dr. ₹	Cr. ₹
1.	Bank A/c	Dr.	3,60,000	
	To 14 % Debenture A/c			3,00,000
	To Securities Premium A/c			60,000
	(Being 14 % debentures issued to finance buy back)			

2.	Bank A/c Dr. To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)	2,50,000	 2,50,000
3.	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	1,50,000	 1,00,000 50,000
4.	Equity share capital A/c (62,500 x ₹20) Dr. Premium on buyback or Securities premium A/c Dr. (62,500 x ₹16) To Equity shares buy back A/c (62,500 x ₹36) (Being the amount due to equity shareholders on buy back)	12,50,000 10,00,000	 22,50,000
5.	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)	22,50,000	 22,50,000
6.	Revenue reserve Dr. Securities premium Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]	3,00,000 2,60,000 4,40,000	 10,00,000
7.	Capital redemption reserve A/c Dr. To Bonus shares A/c (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)	7,50,000	 7,50,000
8.	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of 3 bonus equity share for every 15equity shares held)	7,50,000	 7,50,000

5. **Journal Entries in the books of Jeet Ltd.**

Journal Entries

Date	*Particulars*		*Amount Dr.*	*Amount Cr.*
			₹	₹
1.5.2020	Bank A/c	Dr.	75,00,000	
	To Debenture Application A/c			75,00,000
	(Application money received on 75,000 debentures @ ₹ 100 each)			
1.6.2020	Debenture Application A/c	Dr.	75,00,000	
	Underwriters A/c	Dr.	25,00,000	
	To 15% Debentures A/c			1,00,00,000
	(Allotment of 75,000 debentures to applicants and 25,000 debentures to underwriters)			
	Underwriting Commission	Dr.	2,00,000	
	To Underwriters A/c			2,00,000
	(Commission payable to underwriters @ 2% on ₹ 1,00,00,000)			
	Bank A/c	Dr.	23,00,000	
	To Underwriters A/c			23,00,000
	(Amount received from underwriters in settlement of account)			
1.6.2020	Debenture Redemption Reserve Investment A/c		6,00,000	
	To Bank A/c (100,000x100x15%x 40%)	Dr.		6,00,000
	(Being Investments made for redemption purpose)			
30.9.2020	Debenture Interest A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Interest paid on debentures for 4 months @ 15% on ₹ 1,00,00,000)			
31.10.2020	15% Debentures A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			50,00,000
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			

31.3.2021	Debenture Interest A/c Dr.	3,75,000	
	To Bank A/c		3,75,000
	(Interest paid on debentures for the half year) (refer working note below)		

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 2021

On ₹ 40,00,000 for 6 months @ 15% = ₹ 3,00,000

On ₹ 60,00,000 for 1 months @ 15% = ₹ 75,000

₹ 3,75,000

6. Calculation of number of shares issued to Heera Ltd. and Rita Ltd.:

Amount of Share Capital as per balance sheet	₹
Heera Ltd.	6,00,000
Rita Ltd.	8,40,000
	14,40,000

Share of Heera Ltd. = ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= ₹ 8,64,000 or 86,400 shares

Securities premium = ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000

Premium per share = ₹ 12,96,000 / ₹ 86,400 = ₹ 15

Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share

Share of Rita Ltd. = ₹ 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= ₹ 5,76,000 or 57,600 shares

Securities premium = ₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000

Premium per share = ₹ 8,64,000 / ₹ 57,600 = ₹ 15

Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share

Journal Entries in the books of HR Ltd.

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
Business purchase account Dr.	36,00,000	
To Liquidator of Heera Ltd. account		21,60,000
To Liquidator of Rita ltd. account		14,40,000
(Being the amount of purchase consideration payable to liquidator of Heera Ltd. and Rita Ltd. for assets taken over)		

Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of Heera Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Rita Ltd. taken over)			
Liquidator of Heera Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Rita Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000
To Securities premium (57,600 x ₹ 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account (72,000 x ₹10)			7,20,000
To Securities premium (72,000 x ₹15)			10,80,000
(Equity share capital issued to raise working capital)			

Working Notes:

1. **Calculation of goodwill of Heera Ltd.**

Particulars	Amount ₹	Weight	Weighted amount ₹
2018-19	3,00,000	1	3,00,000
2019-20	5,25,000	2	10,50,000
2020-21	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight] [₹ 32,40,000/6]			
Goodwill			5,40,000

2. **Calculation of Net assets**

	Heera Ltd. ₹	Rita Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000

7. Journal Entries in the books of Shine Ltd.

		₹ '000	₹ '000
(i)	Equity share capital (₹ 10) A/c Dr.	35,000	
	To Equity Share Capital (₹ 4) A/c		14,000
	To Capital Reduction A/c		21,000
	(Being conversion of equity share capital of ₹ 10 each into ₹ 4 each as per reconstruction scheme)		
(ii)	8% Cumulative Preference Share capital (₹ 100) A/c Dr.	17,500	
	To 8% Cumulative Preference Share Capital (₹ 60) A/c		10,500

	To Capital Reduction A/c		7,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	6% Debentures (₹ 100) A/c Dr.	14,000	
	To 9% Debentures (₹ 80) A/c		11,200
	To Capital Reduction A/c		2,800
	(Being 9% debentures of ₹ 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	7,000	
	To Equity Share Capital (₹ 4) A/c		3,500
	To Capital Reduction A/c		3,500
	(Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹ 4 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	350	
	Capital Reduction A/c Dr.	175	
	To Liability for Taxation A/c		525
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Liability for Taxation A/c Dr.	525	
	To Current Assets (Bank A/c)		525
	(Being the payment of tax liability)		
(vii)	Capital Reduction A/c Dr.	34,125	
	To P & L A/c		2,100
	To PPE A/c		8,750
	To Current Assets A/c		18,725
	To Investments A/c		175
	To Capital Reserve A/c (Bal. fig.)		4,375
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		

Capital Reduction Account

To	Liability for taxation A/c	175	By	Equity share capital	21,000
To	P & L A/c	2,100	By	8% Cumulative preferences Share capital	7,000
To	Fixed Assets	8,750			
To	Current assets	18,725	By	6% Debentures	2,800
To	Investment	175	By	Sundry creditors	3,500
To	Capital Reserve (Bal. fig.)	4,375			
		34,300			34,300

8. **Computation of liabilities of underwriters (No. of shares):**

	A & Co.	B & Co.	C & Co.	Total
Gross liability	72,000	30,000	18,000	1,20,000
Less: Marked applications (excluding firm underwriting)	(12,000)	(15,000)	(6,000)	(33,000)
	60,000	15,000	12,000	87,000
Less: Unmarked Applications*(Ratio 72:30:18)	(16,200)	(6,750)	(4,050)	(27,000)
	43,800	8,250	7,950	60,000
Less: Firm underwriting	(9,600)	(12,000)	(3,600)	(25,200)
	34,200	(3,750)	4,350	34,800
Credit for excess of B & Co. (ratio 72:18)	(3,000)	3,750	(750)	
Net liability (excluding firm underwriting)	31,200	-	3,600	
Add: Firm underwriting	9,600	12,000	3,600	
Total liability (No. of shares)	40,800	12,000	7,200	

Working Note:

*Total Applications	60,000	Shares
Less: Marked Applications	33,000	Shares
Unmarked applications	27,000	Shares

9. **Liquidator's Final Statement of Account**

Receipts	₹	Payments	₹
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000 Equity Shares @ ₹ 10 per share (W.N.)	20,000	Liquidator's Remuneration	400
		Unsecured Creditors	99,000
		Preference Shareholders	3,00,000
	4,00,400		4,00,400

Working Notes:

(i) **Calculation of Shortage of funds**	₹
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹\,19,600 \times \frac{100}{100-2}$$

$$= \frac{₹19,600 \times 100}{98} = ₹\,20,000$$

(iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000

(iv) Amount of Calls to be made from equity shareholders (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share

(v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

10. Form B – RA

Name of Insurer: Safe & Co.

Revenue Account for the year ended 31st March, 2021

		Schedule	*Current Year*
			₹
1.	Premium earned (net)	1	3,29,000
2.	Interest, Dividends and Rent – Assumed Gross		18,000
	Total (A)		3,47,000
1.	Claims incurred (net)	2	92,400
2.	Commission	3	93,600
3.	Operating expenses related to Insurance business	4	46,600
	Total (B)		2,32,600
	Operating Profit from Marine Insurance business (A-B)		1,14,400

Schedules forming part of Revenue Account

	Current Year ₹
Schedule –1	
Premium earned (net)	
Total Premium earned	4,04,200
Less: Premium on reinsurance ceded	(25,200)
Total Premium earned (net)	3,79,000
Adjustment for change in reserve for unexpired risk (3,50,000-3,00,000)	50,000
Net Premium earned	3,29,000
Schedule – 2	
Claims incurred (net)	92,400
Schedule – 3	
Commission paid	
Direct	96,000
Add: Re-insurance accepted	5,600
Less: Re-insurance ceded	(8,000)
Net Commission	93,600
Schedule – 4	
Operating expenses related to insurance business	
Establishment expenses	30,000
Rent, rates and taxes	14,000
Printing and stationery	1,800
Legal and professional charges ₹ (2,000-1,200)	800
	46,600

Working Notes:

		Direct ₹	*Re-insurance* ₹
1.	**Total Premium Income**		
	Received	3,60,000	38,000

	Add: Receivable on 31st March, 2021	16,000	1,800
		3,76,000	39,800
	Less: Receivable on 1st April, 2020	(10,000)	(1,600)
		3,66,000	38,200

Total premium income ₹ 3,66,000 + ₹ 38,200 = ₹ 4,04,200

2.	**Premium Expense on reinsurance**	₹
	Premium Paid during the year	24,000
	Add: Payable on 31st March, 2021	2,200
		26,200
	Less: Payable on 1st April, 2020	(1,000)
		25,200
3.	**Claims Paid**	
	Direct Business	1,54,000
	Re-insurance	14,000
	Legal Expenses	1,200
		1,69,200
	Less: Re-insurance claims received	(17,000)
		1,52,200
4.	**Claims outstanding as on 31st March, 2021**	
	Direct	16,000
	Re-insurance	4,200
		20,200
	Less: Recoverable from Re-insurers on 31st March, 2021	(1,900)
		18,300
5.	**Claims outstanding as on 1st April, 2020**	
	Direct	78,000
	Re-insurance	1,500
		79,500
	Less: Recoverable from Re-insurers on 1st April, 2020	(1,400)
		78,100
6.	**Claims incurred during the year**	
	Net Claims Paid + Claims outstanding on 31.3.2021 – Claims outstanding on 1.4.2020 = ₹ 1,52,200 + ₹ 18,300 – ₹ 78,100	92,400

11. **Sun Bank Limited**

Profit and Loss Account

For the year ended 31st March, 2021

₹ in lakhs

	Particulars	Schedule	Year ended 31-3-2021
I	Income		
	Interest earned	13	766
	Other income	14	50
			816
II	Expenditure		
	Interest expended	15	54
	Operating expenses	16	468
	Provisions and Contingencies (Refer W.N.)		158.96
			680.96
III	Profit/Loss		
	Net Profit/(Loss) for the year		135.04
	Net Profit/(Loss) brought forward		Nil
			135.04
IV	Appropriations:		
	Transfer to Statutory reserve (25% of the profits)		33.76
	Balance carried to the balance sheet		101.28
	Total		135.04

Schedule 13 - Interest Earned

		Year ended 31-3-2021	(₹ in lakhs)
I	Interest/discount on advances/bills		
	Interest on cash credit (364-84)	280	
	Interest on overdraft (150-100)	50	
	Interest on term loans (308-70)	238	568
II	Income on investments		168
III	Interest on Balance with RBI		30
			766

Interest on NPA is recognized on cash basis, hence difference of accrued interest not received have been reduced from the total accrued interest.

Schedule 14 - Other Income

			Year ended 31-3-2021 (₹ in lakhs)
I	Commission, Exchange and Brokerage:		
	Commission on remittances and transfer	15	
	Commission on letter of credit	24	
	Commission on Government business	16	55
II	Profit on sale of Land and Building		5
III	Loss on Exchange Transactions		(10)
			50

Schedule 15 - Interest Expended

			Year ended 31-3-2021 (₹ in lakhs)
I	Interest on Deposits		
	Fixed deposits	25	
	Recurring deposits	17	
	Saving bank deposits	12	54

Schedule 16 - Operating Expenses

			Year Ended 31-3-2021 (₹ in lakhs)
I	Payment to and provision for employees		
	Salaries, allowances and bonus	248	
	Provident Fund Contribution	56	304
II	Printing and Stationery		28
III	Advertisement and publicity		36
IV	Directors' fees, allowances and expenses		50
V	Auditors' fees and expenses		24
VI	Postage, telegrams, telephones etc.		16
VII	Repairs and maintenance		10
			468

Working Note:

Provisions and contingencies			(₹ in lakhs)
Provision for Advances:			
Standard	60 × 0.40%		0.24
Sub-standard	22 × 15%		3.3
Doubtful not covered by security	40× 100%		40
Doubtful covered by security:			
Less than 1 year	6 x 25%	1.5	
More than 1 year but less than 3 years	3 x 40%	1.2	
More than 3 years	2 x 100%	2.0	4.7
Loss Assets	(38 × 100%)		38
			86.24
Provision for tax	35% of (Total Income – Total Expenditure)		
	35% of [816-(54+468+86.24)]		
	35% of [816 - 608.24]		
	35% of 207.76		72.72
			158.96

12. **In the Books of M/s Hero**

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2021

Particulars	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*	*Particulars*	*Deptt.X*	*Deptt.Y*	*Deptt.Z*	*Total*
	₹	₹	₹	₹		₹	₹	₹	₹
To Stock (opening)	18,000	12,000	10,000	40,000	By Sales	90,000	67,500	45,000	2,02,500
To Purchases	66,000	44,000	22,000	1,32,000	By Stock (closing)	22,500	8,750	10,500	41,750
To Carriage Inwards	750	500	250	1,500					
To Gross Profit c/d (b.f.)	27,750	19,750	23,250	70,750					
	1,12,500	76,250	55,500	2,44,250		1,12,500	76,250	55,500	2,44,250

To Carriage Outwards	1,200	900	600	2,700	By Gross Profit b/d	27,750	19,750	23,250	70,750
To Electricity	1,500	1,000	500	3,000	By Discount received	900	600	300	1,800
To Salaries	10,000	8,000	6,000	24,000					
To Advertisement	1,200	900	600	2,700					
To Discount allowed	1,000	750	500	2,250					
To Rent, Rates and Taxes	3,000	2,500	2,000	7,500					
To Depreciation	400	400	200	1,000					
To Provision for Bad Debts @ 5% of debtors	375	250	250	875					
To Labour welfare expenses	1,000	800	600	2,400					
To Net Profit (b.f.)	8,975	4,850	12,300	26,125					
	28,650	20,350	23,550	72,550		28,650	20,350	23,550	72,550

Working Note:

Basis of allocation of expenses	
Carriage inwards	Purchases (3:2:1)
Carriage outwards	Turnover (4:3:2)
Salaries	No. of Employees (5:4:3)
Advertisement	Turnover (4:3:2)
Discount allowed	Turnover (4:3:2)
Discount received	Purchases (3:2:1)
Rent, Rates and Taxes	Floor Space occupied (6:5:4)
Depreciation on furniture	Value of furniture (2:2:1)
Labour welfare expenses	No. of Employees (5:4:3)
Electricity expense	Units consumed (3:2:1)
Provision for bad debts	Debtors balances (3:2:2)

13. Branch Stock Account

			₹				₹	₹	₹
1.4.19	To	Balance b/d (opening stock)	36,000	31.3.20	By	Sales:			
31.3.20	To	Goods Sent to Branch A/c	4,20,000			Cash		92,500	
						Credit	3,12,500		

	To	Branch P&L	47,000			Less: Return	(7,000)	3,05,500	3,98,000
					By	Goods sent to branch - returns			30,000
					By	Balance c/d (closing stock)			75,000
			5,03,000						5,03,000
1.4.20	To	Balance b/d	75,000						

Branch Debtors Account

			₹				₹
1.4.19	To	Balance b/d	48,000	31.3.20	By	Cash	2,19,000
31.3.20	To	Sales	3,12,500		By	Returns	7,000
					By	Discounts	3,750
					By	Bad debts	2,750
					By	Balance c/d	1,28,000
			3,60,500				3,60,500
1.4.20	To	Balance b/d	1,28,000				

Branch Expenses Account

			₹				₹
31.3.20	To	Salaries & Wages	36,000	31.3.20	By	Branch P&L A/c	59,100
	To	Rent, Rates & Taxes	12,000				
	To	Office Expenses	4,600				
	To	Discounts	3,750				
	To	Bad Debts	2,750				
			59,100				59,100

Branch Profit & Loss Account for year ended 31.3.20

			₹				₹
31.3.20	To	Branch Expenses A/c	59,100	31.3.20	By	Branch stock	47,000
	To	Net Profit transferred to			By	Branch Stock Adjustment account	58,500

		General P & L A/c	46,900		By	Bad debts recovered	500
			1,06,000				106,000

Branch Stock Adjustment Account for year ended 31.3.20

			₹				₹
31.3.20	To	Goods sent to branch (30,000x1/6) - returns	5,000	31.3.20	By	Balance b/d (36,000x1/6)	6,000
	To	Branch P & L A/c	58,500		By	Goods sent to branch (4,20,000x1/6)	70,000
	To	Balance c/d (75,000x1/6)	12,500				
			76,000				76,000

14. Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The framework recognizes four alternative measurement bases for the purpose. These bases can be explained as:

Historical cost	This is the Acquisition price. According to this, assets are recorded at an amount of cash and cash equivalent paid or the fair value of the assets at time of acquisition.
Current Cost	Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realisable (Settlement) Value	For assets, amount currently realizable on sale of the asset in an orderly disposal. For liabilities, this is the undiscounted amount expected to be paid on settlement of liability in the normal course of business.
Present Value	Assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

In preparation of financial statements, all or any of the measurement basis can be used in varying combinations to assign money values to financial items.

15. Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property ₹ 1,50,000 would be considered.
(b)	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.
(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, ₹ 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.

16. (a) Due to major theft of stores in the preceding year (2019-2020) which was detected only during the current financial year (2020–2021), there was overstatement of closing inventory of stores in the preceding year. This must have also resulted in the overstatement of profits of previous year, brought forward to the current year. The adjustments are required to be made in the current year as 'Prior Period Items' as per AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Accordingly, the adjustments relating to both opening inventory of the current year and profit brought forward from the previous year should be separately disclosed in the statement of profit and loss together with their nature and amount in a manner that their impact on the current profit or loss can be perceived. Alternatively, it may be assumed that in the preceding year, the value of inventory of stores as found out by physical verification of inventories was considered in the preparation of financial statements of the preceding year. In such a case, only the disclosure as to the theft and the resulting loss is required in the notes to the accounts for the current year i.e, year ended 31st March, 2021.

(b) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Accordingly, the adoption of a new accounting policy of paying pension to retired employees is a policy for events or transactions which did not occur previously. Hence, it will not be treated as a change in an accounting policy.

17.

Forward Rate	₹ 49.15
Less: Spot Rate	(₹ 48.85)
Premium on Contract	₹ 0.30
Contract Amount	US$ 1,00,000

Total Loss (1,00,000 x 0.30) ₹ 30,000 to be recognized in year ended 31.3.2021.

18. The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. AS 20 states that "For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period". With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

19. As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs $\left(\frac{₹ 120 \text{ Lakhs}}{10 \text{ years}} \times 4 \text{ years} = 48 \text{ Lakhs}\right)$.The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortized over remaining 6 years by amortizing ₹ 12 lakhs per year.

20. As per AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event. However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted. In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted.