PAPER – 5 : ADVANCED ACCOUNTING

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

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

Working notes should form part of the respective answers.

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

Question 1

(a) *Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2017, it borrowed US $1 million from International Funding Agency, USA when exchange rate was 1 $ = ₹ 63. The funds were used for acquiring machineries, on the same date, to be used in three different plants. The useful life of the machineries is 10 years and their residual value is ₹ 30,00,000.*

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2018 is 1 US $ = ₹ 62. Assume that on 31st March, 2018, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2017.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2018. If yes, then calculate the depreciation amount on machineries as on 31st March, 2018.

(b) *Sun Limited leased a machine to Moon Limited on the following terms:*

	(Amount in ₹)
Fair value at inception of lease	*50,00,000*
Lease Term	*4 Years*
Lease Rental per annum	*16,00,000*
Guaranteed residual value	*3,00,000*
Expected residual value	*4,50,000*
Implicit Interest rate	*15%*

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of Lease Liability and ascertain Unearned Finance Income as per AS-19.

(c)

Net Profit for FY 2016-17	*30,00,000*
Net Profit for FY 2017-18	*50,00,000*
No. of shares outstanding prior to rights issue	*20,00,000 shares*
Rights Issue Price	*₹ 20*
Last day to exercise rights	*1st June, 2017*

Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2017 was ₹ 26.00.

Compute Basic Earnings Per Share for FY 2016-17, FY 2017-18 and restated EPS for FY 2016-17.

(d) *How would you treat the following in the accounts in accordance with AS-12 'Government Grants'?*

(i) *₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.*

(ii) *₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.*

(iii) *₹ 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.* ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) As per paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates', in respect of accounting periods commencing on or after 1st April, 2011, for an enterprise which had earlier exercised the option under paragraph 46 or not (such option to be irrevocable and to be applied to all such foreign currency monetary items), the exchange differences arising on reporting of long term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

Accordingly, though Legal Ltd. had not earlier exercised the option, yet it can avail the option to capitalize the exchange difference to the cost of machinery by virtue of para 46A of AS 11. Further, since Legal Ltd. has no earlier long term foreign currency borrowings, it is not required to apply capitalization option to earlier borrowing also.

Exchange difference to be capitalized and depreciation amount ₹

Cost of the asset in $		1 million
Exchange rate on 1st April, 2017		₹ 63 = 1$
Cost of the asset in ₹	(1 million x ₹ 63)	63 million
Less: Exchange differences as on 31st March, 2018 (63-62) x $ 1 million	(Gain)	(1 million)
		62 million
Less: Depreciation for 2017-18	(62 million - 3 million) /10 years	(5.90 million)
		56.10 million

(b) According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee. In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment ₹	Internal rate of return (Discount rate @15%)	Present value ₹
1	16,00,000	0.8696	13,91,360
2	16,00,000	0.7561	12,09,760
3	16,00,000	0.6575	10,52,000
4	19,00,000*	0.5718	10,86,420
Total	67,00,000		47,39,540

Present value of minimum lease payments i.e. ₹ 47,39,540 is less than fair value at the inception of lease i.e. ₹ 50,00,000, therefore, the value of lease is ₹ 47,39,540 and lease liability should be recognized in the books at ₹ 47,39,540 as per AS 19.

Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e 16,00,000 + 3,00,000 =19,00,000.

Calculation of Unearned Finance Income

As per AS 19 on Leases, unearned finance income is the difference between (a) the gross investment in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

Where:

(a) **Gross investment** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value(GRV)] + Unguaranteed residual value (URV)

= [(₹ 16,00,000 ×4 years) + ₹ 3,00,000] + ₹ 1,50,000 = ₹ 68,50,000

(b) **Present value of minimum lease payment from Lessor's view point lease liability**

₹ 47,39,540 + present value of (URV) unguaranteed residual value (₹ 1,50,000 x 0.5718) = ₹ 48,25,310

Unearned Finance Income = (a) – (b) = ₹ 68,50,000 – ₹ 48,25,310= ₹ 20,24,690

(c) Computation of Basic Earnings Per Share (as per AS 20 Earnings Per Share)

	Year 2016-17 ₹	Year 2017-18 ₹
EPS for the year 2016-17 as originally reported		
$= \dfrac{\text{Net Profit of the year attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$		
= (₹ 30,00,000 / 20,00,000 shares)	1.5	
EPS for the year 2016-17 restated for rights issue		
= [₹ 30,00,000 / (20,00,000 shares × 1.04*)]	1.44 (approx.)	
EPS for the year 2017-18 including effects of rights issue		
$\dfrac{₹\ 50,00,000}{(20,00,000 \text{ shares} \times 1.04 \times 2/12) + (24,00,000 \text{ shares} \times 10/12)}$		
₹ 50,00,000/ 23,46,667 shares		2.13 (approx.)

* Refer working note 2.

Working Notes:

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$= \frac{(₹\ 26 \text{ x } 20,00,000 \text{ shares}) + (₹\ 20 \text{ x } 4,00,000 \text{ shares})}{20,00,000 \text{ shares} + 4,00,000 \text{ shares}}$$

$$= \frac{₹\ 6,00,00,000}{24,00,000 \text{ shares}} = ₹\ 25$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{₹\ 26}{₹\ 25 \text{ (Refer Working Note 1)}} = 1.04 \text{ (approx.)}$$

(d) (a) ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(b) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(c) ₹ 10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Thus, ₹ 10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

Question 2

A & B are partners in AB & Co. sharing Profit/Loss in the ratio of 3:2 and B & C are partners in BC & Co. sharing Profit/Loss in the ratio of 2: 1 carrying on same type of business. On 1st April, 2019, A, B & C decide to form a new Partnership Firm ABC & Co. by amalgamating AB & Co. and BC & Co. A, B & C will share Profit/Loss in the ratio of 3:2:1 in ABC & Co.

Their Balance Sheets on 1st April, 2019 were as under:

Liabilities	AB & Co. (₹)	BC & Co. (₹)	Assets	AB & Co. (₹)	BC & Co. (₹)
Capital			Building	20,000	10,000
A	66,000	-	Plant & Machinery	21,000	29,000
B	67,000	50,000	Vehicles	15,000	5,000
C	-	48,000	Furniture	4,000	7,500
Reserves	10,000	5,000	Stock	50,500	19,500
Sundry Creditors			Sundry Debtors		
- Others	41,000	38,000	- Others	43,500	37,000
- BC &Co.	15,000	-	- AB & Co.	-	15,000
- XYZ & Co.	-	9,000	- XYZ & Co.	25,000	-
			Cash at Bank	15,000	18,000
			Cash in Hand	5,000	9,000
	1,99,000	1,50,000		1,99,000	1,50,000

Following are the terms for the amalgamation:

(a) Goodwill will be valued at ₹ 25,000 for AB & Co. and ₹ 18,000 for BC & Co. But same will not appear in the books of the new firm.

(b) Building was taken over as follows:

- *Building of AB & Co. was valued with upward revision of ₹ 10,000*
- *Building of BC & Co. valued at ₹ 16,000.*

(c) Plant & Machinery to be taken over with downward valuation by ₹ 2,000 of AB & Co. and with new value of ₹ 32,000 of BC & Co.

(d) Value of vehicles to be taken over was reduced by ₹ 5,000 of AB & Co. and reduced to ₹ 2,000 of BC & Co.

(e) Excess/Deficit Capitals for partners taking A's Capital as base with reference to share in profits are to be transferred to Current Accounts.

You are required to prepare Balance Sheet of the new firm and Capital Accounts of the partners in the books of old firm. ***(16 Marks)***

Answer

Balance Sheet of ABC & Co. as at 1st April, 2019

Liabilities		₹	*Assets*		₹
Partners' Capital Accounts:			Building (30,000 + 16,000)		46,000
A	67,300		Plant & machinery (19,000+32,000)		51,000
B	44,867				
C	22,433		Furniture (4,000+ 7,500)		11,500
		1,34,600	Vehicles (10,000+ 2,000)		12,000
Partners' Current Accounts:			Stock-in-trade		
B	92,333		(50,500+19,500)		70,000
C	28,067	1,20,400			
Sundry creditors (41,000+38,000)		79,000	Sundry debtors:		
			Others	80,500	
			XYZ Co.	16,000	96,500
			Bank balance (15,000+18,000)		33,000
			Cash in hand		14,000
		3,34,000			3,34,000

Partners' Capital Accounts in the books of AB & Co.

	Particulars	A ₹	B ₹		*Particulars*	A ₹	B ₹
To	Capital A/cs- ABC & Co.	88,800	82,200	By	Balance b/d	66,000	67,000
				By	Reserve (3:2)	6,000	4,000
				By	Profit on Realization A/c (W.N.3)	16,800	11,200
		88,800	82,200			88,800	82,200

Partners' Capital Accounts in the books of BC & Co.

Particulars	B ₹	C ₹	Particulars	B ₹	C ₹
To Capital A/cs - ABC & Co.	69,333	57,667	By Balance b/d	50,000	48,000
			By Reserve (2:1)	3,333	1,667
			By Profit on Realization (W.N.4)	16,000	8,000
	69,333	57,667		69,333	57,667

Working Notes:

1. Computation of purchase consideration

	AB & Co. ₹	BC & Co. ₹
Assets:		
Goodwill	25,000	18,000
Building	30,000	16,000
Plant & machinery	19,000	32,000
Vehicles	10,000	2,000
Stock-in-trade	50,500	19,500
Furniture	4,000	7,500
Sundry debtors	43,500	37,000
Bank balance	15,000	18,000
Cash in hand	5,000	9,000
Due from AB & Co.	-	15,000
Due from XYZ & Co.	25,000	-
(A)	2,27,000	1,74,000
Liabilities:		
Creditors	41,000	38,000
Due to BC & Co.	15,000	-
Due to XYZ & Co.	-	9,000
(B)	56,000	47,000
Purchase consideration (A-B)	1,71,000	1,27,000

2. Computation of proportionate capitals and capital adjustments

	A	B	C	Total
	₹	₹	₹	₹
Balance transferred from AB & Co.	88,800	82,200		1,71,000
Balance transferred from BC & Co.		69,333	57,667	1,27,000
	88,800	1,51,533	57,667	2,98,000
Less: Goodwill written off in the ratio of 3:2:1	(21,500)	(14,333)	(7,167)	(43,000)
Existing capital	67,300	1,37,200	50,500	2,55,000
Total Capital in the ratio of 3:2:1 taking A's Capital as base	67,300	44,867	22,433	
Amount to be transfer to current accounts	-	92,333	28,067	

3. In the books of AB& Co.

Realization Account

	₹		₹
To Building	20,000	By Creditors	41,000
To Plant & machinery	21,000	By Dues to BC & Co.	15,000
To Furniture	4,000	By ABC & Co. (purchase consideration) (W.N.1)	1,71,000
To Vehicles	15,000		
To Stock-in-trade	50,500		
To Sundry debtors	43,500		
To Bank balance	15,000		
To Cash in hand	5,000		
To Due from XYZ & Co.	25,000		
To Partners' capital A/cs:			
A 16,800			
B 11,200	28,000		
	2,27,000		2,27,000

4. In the books of BC & Co.

Realization Account

	₹		₹
To Building	10,000	By Creditors	38,000

To	Plant & machinery	29,000	By	Due to XYZ & Co.	9,000
To	Vehicles	5,000	By	ABC & Co. (purchase consideration) (W.N.1)	1,27,000
To	Stock-in-trade	19,500			
To	Furniture	7,500			
To	Sundry debtors	37,000			
To	Bank balance	18,000			
To	Cash in hand	9,000			
To	Due from AB & Co.	15,000			
To	Partners' capital A/cs:				
	B 16,000				
	C 8,000	24,000			
		1,74,000			1,74,000

Question 3

(a) *Following is the summarized Balance Sheet of Competent Limited as on 31st March, 2013:*

Liabilities	₹	*Assets*	₹
Equity Shares of ₹ 10 each fully paid up	*15,00,000*	*Fixed Assets*	*61,80,000*
Revenue reserve	*18,00,000*	*Current Assets*	*30,00,000*
Securities Premium	*3,00,000*		
Profit & Loss Account	*1,50,000*		
Secured Loans:			
12% Debentures	*22,50,000*		
Unsecured Loans	*12,00,000*		
Current maturities of long term borrowings	*19,80,000*		
Total	*91,80,000*	*Total*	*91,80,000*

The company wants to buy back 30,000 equity shares of ₹ 10 each, on 1st April, 2013 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares.

(b) *Diamond Ltd. came out with an issue of 50,00,000 Equity Shares of ₹ 10 each, ₹ 2.5 to be paid at application and ₹ 3.5 to be paid at allotment. The Promoters took 20% of the issue and balance was offered to Public. The issue was underwritten by Gold, Silver, Copper & Iron equally. Underwriters were entitled to the maximum commission permitted by the law on the amounts underwritten.*

Gold, Copper, Silver & Iron also agreed on 'Firm' Underwriting of 1,00,000, 50,000, 75,000 & 25,000 shares respectively.

Subscriptions for 35,00,000 (including firm underwriting applications by under writers) Equity Shares were received with Marked forms for the Underwriters as under:

Gold -15,00,000, Copper-5,00,000, Iron -2,50,000, Silver-10,00,000. You are required to (Assuming Benefit of Underwriting is not given to Underwriters):

1. *Compute the Underwriters' Liability in number of shares.*
2. *Compute the amount payable to Underwriters.*
3. *Pass the Journal entries (related to transactions with underwriters only) in the books of Diamond Ltd.·* ***(8 + 8 = 16 Marks)***

Answer

(a) Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	*Shares*
Number of shares outstanding	1,50,000
25% of the shares outstanding	37,500
Actual Number of shares proposed for buy back	30,000

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	15,00,000
Free reserves (₹) (18,00,000 + 3,00,000 + 1,50,000)	22,50,000
Shareholders' funds (₹)	37,50,000
25% of Shareholders fund (₹)	9,37,500
Buy back price per share	₹ 20
Number of shares that can be bought back	46,875
Actual number of shares proposed for buy back	30,000

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

	Particulars	₹
(a)	Loan funds (₹) (22,50,000+12,00,000+19,80,000)	54,30,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	27,15,000
(c)	Present equity/shareholders fund (₹)	37,50,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (37,50,000 – 3,45,000)	34,05,000*
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	6,90,000
(f)	Maximum number of shares that can be bought back @ ₹ 20 per share	34,500 shares
(g)	Actual Buy Back Proposed	30,000 Shares

Summary statement determining the maximum number of shares to be bought back

Particulars	*Number of shares*
Shares Outstanding Test	37,500
Resources Test	46,875
Debt Equity Ratio Test	34,500
Maximum number of shares that can be bought back [least of the above]	34,500

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 34,500 shares on 1st April, 2013.

However, company wants to buy-back only 30,000 equity shares @ ₹ 20. Therefore, buy-back of 30,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

**As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.*

Journal Entries for buy-back of shares

			Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account	Dr.	6,00,000	
	To Bank account			6,00,000
	(Being buy back of 30,000 equity shares of ₹ 10 each @ ₹ 20 per share)			
(b)	Equity share capital account	Dr.	3,00,000	
	Securities premium account	Dr.	3,00,000	
	To Equity shares buy-back account			6,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	3,00,000	
	To Capital redemption reserve account			3,00,000
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)			

Working Note:

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

Then

Equation 1: (Present equity – Nominal value of buy-back transfer to CRR) – Minimum equity to be maintained = Maximum permissible buy-back of equity

(37,50,000 – x) – 27,15,000 = y

$$10{,}35{,}000 - x = y \qquad (1)$$

Equation 2: $\left(\dfrac{\text{Maximum buy - back}}{\text{Offer price for buy - back}} \text{ x Nominal Value}\right)$

= Nominal value of the shares bought –back to be transferred to CRR

$$\left(\frac{y}{20}\times 10\right) = x \quad \text{Or} \quad 2x = y \qquad (2)$$

$$2x = 10{,}35{,}000 - x$$

by solving the above equations, we get

x = ₹ 3,45,000

y = ₹ 6,90,000

(b) (i) Calculation of liability of each underwriter (in shares) if the benefit of firm underwriting is not given to individual underwriters

(Number of shares)

	Gold	*Copper*	*Silver*	*Iron*	*Total*
Gross Liability (Total Issue – Issued to Promoters, Directors i.e. 50,00,000 x 0.8)	10,00,000	10,00,000	10,00,000	10,00,000	40,00,000
Less: Marked applications (excluding firm underwriting)	(15,00,000)	(5,00,000)	(10,00,000)	(2,50,000)	(32,50,000)
Balance	(5,00,000)	5,00,000	-	7,50,000	7,50,000
Less: Surplus of Gold allocated to Copper and Iron in the equal ratio	5,00,000	(2,50,000)	-	(2,50,000)	
Balance	-	2,50,000	-	5,00,000	7,50,000
Less: Firm underwriting is treated as Unmarked applications in the ratio of gross liability (Refer W.N.)	(62,500)	(62,500)	(62,500)	(62,500)	(2,50,000)
	(62,500)	1,87,500	(62,500)	4,37,500	5,00,000
Less: Surplus of Gold and silver allocated to Copper and Iron in the equal ratio	62,500	(62,500)	62,500	(62,500)	
Net Liability	-	1,25,000	-	3,75,000	5,00,000
Add: Firm underwriting	1,00,000	50,000	75,000	25,000	2,50,000
Total Liability	1,00,000	1,75,000	75,000	4,00,000	7,50,000

Working Note:

Number of unmarked applications:

Total subscription (excluding firm underwriting)	32,50,000 shares
Less: Marked applications (excluding firm underwriting) (15,00,000 + 5,00,000 + 2,50,000+10,00,000)	32,50,000 shares
Unmarked applications by public	Nil shares
Add: Applications under firm underwriting	2,50,000 shares
	2,50,000 shares

(ii) Computation of amounts payable by underwriters

	Gold	*Copper*	*Silver*	*Iron*
Liability towards shares to be subscribed	1,00,000	1,75,000	75,000	4,00,000
Amount due up to allotment at ₹ 6 per share	6,00,000	10,50,000	4,50,000	24,00,000
Less: Application money paid for firm underwriting* at ₹ 2.50 per share	(2,50,000)	(1,25,000)	(1,87,500)	(62,500)
Balance due from underwriters	3,50,000	9,25,000	2,62,500	23,37,500
Less: Commission (on Gross Liability)				
(5% on FV ₹ 10 each on 10 lakhs shares)	(5,00,000)	(5,00,000)	(5,00,000)	(5,00,000)
Net amount to be Refunded to / Paid by underwriters	(1,50,000)	4,25,000	(2,37,500)	18,37,500

* *Assuming that Application money has been paid by the underwriters*

(iii) Journal Entries in the Books of Diamond Ltd.

Particulars		*Dr.*	*Cr.*
		₹	₹
Bank A/c	Dr.	6,25,000	
To Equity share application A/c			6,25,000
(Being application money received on firm undertaking of 2,50,000 shares at ₹ 2.50 per share)			
Gold A/c	Dr.	3,50,000	
Copper A/c	Dr.	9,25,000	

Silver A/c	Dr.	2,62,500	
Iron A/c	Dr.	23,37,500	
Equity share application A/c	Dr.	6,25,000	
To Equity share capital A/c			45,00,000
(Being shares including firm underwritten shares allotted to underwriters)			
Underwriting Commission A/c	Dr.	20,00,000	
To Gold A/c			5,00,000
To Copper A/c			5,00,000
To Silver A/c			5,00,000
To Iron A/c			5,00,000
(Being underwriting commission on the shares underwritten)			
Bank A/c	Dr.	22,62,500	
To Copper A/c			4,25,000
To Iron A/c			18,37,500
(Being the amount received towards shares allotted to underwriters less underwriting commission due to them)			
Gold A/c	Dr.	1,50,000	
Silver A/c	Dr.	2,37,500	
To Bank A/c			3,87,500
(Being the amount paid to underwriters after settlement of underwriting commission due to them)			

Note: It has been considered that Marked applications exclude firm underwriting shares.

Question 4

The following were summarized Balance sheet of Namo Ltd. and Raga Ltd. as at 31.03.2011:

	Namo Ltd. (₹ in lakhs)	*Raga Ltd. (₹ in lakhs)*
Liabilities		
Equity Share Capital (Fully paid shares of ₹ 10 each)	*22,500*	*9,000*
Securities Premium	*4,500*	*-*
Foreign Project Reserve	*-*	*465*
General Reserve	*14,250*	*4,800*

Profit and Loss Account	*4,305*	*1,237.5*
12% Debentures	*-*	*1,500*
Trade payables	*1,800*	*694.5*
Provisions	*2,745*	*1,053*
	50,100	*18,750*
Assets		
Land and Buildings	*9,000*	
Plant and Machinery	*21,000*	*7,500*
Furniture, Fixtures and Fittings	*3,456*	*2,550*
Inventory	*11,793*	*6,061.5*
Trade receivables	*3,180*	*1,650*
Cash at Bank	*1,671*	*913.5*
Cost of Issue of Debentures	*-*	*75*
	50,100	*18,750*

All the bills receivable held by Raga Ltd. were Namo Ltd.'s acceptances.

On 1st April 2011, Namo Ltd. took over Raga Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Namo Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Raga Ltd. It was also agreed that 12% debentures in Raga Ltd. would be converted into 13% debentures in Namo Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	*Namo Ltd.*	*Raga Ltd.*
		(₹ in lakhs)
Trade Payables		
Creditors	*1,620*	*694.5*
Bills Payable	*180*	*-*
	1,800	*694.5*
Trade receivables		
Debtors	*3,180*	*1,530*
Bills Receivables	*-*	*120*
	3,180	*1,650*

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Namo Ltd.

You are required to:

(a) Pass journal entries in the books of Namo Ltd. and

(b) Prepare Namo Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of Raga Ltd. is not transferred to Namo Ltd. ***(16 Marks)***

Answer

Books of Namo Ltd.
Journal Entries

		(₹ in Lacs)	(₹ in Lacs)
Business Purchase A/c	Dr.	13,500	
To Liquidator of Raga Ltd.			13,500
(Being business of Raga Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465
To General Reserve (4,800 - 4,500)			300
To Profit and Loss A/c (1,237.5 – 75*)			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Raga Ltd.)			
Liquidator of Raga Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5

* Cost of issue of debentures adjusted against P & L A/c of Raga Ltd.

(Liquidation expenses paid by Namo Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Namo Ltd. as at 1st April, 2011 (after merger)

		Particulars	Notes	₹ (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment		
		Tangible assets	4	43,506
2		Current assets		
	A	Inventories (11,793+6,061.5)		17,854.5
	B	Trade receivables (3,180+1,650-120)		4,710
	C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
		Total		68,653.5

Notes to Accounts

	₹
1. Share Capital	

	Equity share capital	
	Authorised, issued, subscribed and paid-up 36 crores equity shares of ₹ 10 each (of the above shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	Reserves and Surplus	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
	Total	24,981
3.	Long-term borrowings	
	Secured	
	13% Debentures	1,500
4.	Tangible assets	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of Namo Ltd. for every two equity shares held in Raga Ltd.

Purchase consideration = ₹ 9,000 lacs × $\frac{3}{2}$ = ₹ 13,500 lacs

Note: The balance sheet has been prepared on the basis of Schedule III to the Companies Act, 2013 irrespective of the financial year given in the question.

Question 5

(a) *From the following balances extracted from the books of ABC General Insurance Company Ltd. as on 31st March, 2017, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance Business for the year ended 31st March, 2017.*

Particulars	*Fire (₹)*	*Marine (₹)*
Outstanding Claim as on 1st April, 2016	*56,000*	*14,000*
Claims Paid	*2,00,000*	*1,60,000*

Reserve for unexpired risk as on 1st April, 2016	*4,00,000*	*2,80,000*
Premium Received	*9,00,000*	*6,60,000*
Agent's Commission	*80,000*	*40,000*
Expenses of management (Inclusive of legal expenses regarding settlement of claims ₹ 10,000 and ₹ 8,000 respectively for Fire and Marine business)	*1,20,000*	*90,000*
Re-Insurance Premium - Dr.	*50,000*	*30,000*

The following additional points are also to be taken into consideration:

(1) Claims outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance ₹ 20,000

(b) Marine Insurance ₹ 30,000

(2) Premium outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance ₹ 60,000

(b) Marine Insurance ₹ 40,000

(3) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire & Marine Insurance respectively.

(4) Expenses of management due on 31st March, 2017 were ₹ 20,000 for Fire Insurance and ₹ 10,000 in respect of Marine Insurance.

(b) The following balances appear in books of "Saregama Bank Limited":

Bills Discounted (During FY 2018-19) ₹ 4,80,00,000.00

Discount Received (During FY 2018-19) ₹ 15,20,000.00

Rebate on bills discounted (as on 1.4.2018) ₹ 2,25,000.00

Details of bills discounted are as follows:

Value of Bill	Due Date	Rate of Discount
25,00,000.00	16.06.2019	10%
50,00,000.00	25.05.2019	11%
40,00,000.00	01.07.2019	12%

You are required:

(1) To calculate the rebate on bills discounted as on 31.03.2019.

(2) To pass necessary journal entries. (Narration not required).

(3) Ledger account of Rebate on bills discounted.

(4) Ledger account of Discount on Bills. ***(8 + 8 = 16 Marks)***

Answer

(a) Form B – RA (Prescribed by IRDA)

ABC General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2017
Fire and Marine Insurance Businesses

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	8,55,000	2,80,000
Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)		-	-
Interest, Dividends and Rent – Gross		—	—
Total (A)		8,55,000	2,80,000
Claims incurred (net)	2	1,74,000	1,84,000
Commission	3	80,000	40,000
Operating expenses related to Insurance business	4	1,30,000	92,000
Total (B)		3,84,000	3,16,000
Profit OR Loss from Fire / Marine Insurance business (A-B)		4,71,000	(36,000)

Schedules forming part of Revenue Account

Premiums earned (net)	*Fire Current Year*	*Marine Current Year*
	₹	₹
Schedule –1		
Premiums from direct business less reinsurance written (W.N.3)	9,10,000	6,70,000
Less: Adjustment for Change in provision for unexpired risk	(55,000)	(3,90,000)
	8,55,000	2,80,000

Schedule – 2 Claims incurred (net)	1,74,000	1,84,000
Schedule – 3 Commission Paid	80,000	40,000
Schedule – 4		
Operating expenses related to insurance business		
Expenses of Management	1,30,000	92,000

Working Notes:

		Fire	*Marine*
		₹	₹
1.	**Claims under policies less reinsurance**		
	Claims paid during the year	2,00,000	1,60,000
	Add: Outstanding on 31st March, 2017	20,000	30,000
		2,20,000	1,90,000
	Less: Outstanding on 1st April, 2016	(56,000)	(14,000)
		1,64,000	1,76,000
	Add: Legal expenses	10,000	8,000
		1,74,000	1,84,000
2.	**Expenses of management**		
	Expenses paid during the year	1,20,000	90,000
	Add: Outstanding on 31st March, 2017	20,000	10,000
		1,40,000	1,00,000
	Less: Legal Expense for claim	(10,000)	(8,000)
		1,30,000	92,000
3.	**Premiums less reinsurance**		
	Premiums received during the year	9,00,000	6,60,000
	Add: Outstanding on 31st March, 2017	60,000	40,000
		9,60,000	7,00,000
	Less: Reinsurance premiums	(50,000)	(30,000)
		9,10,000	6,70,000

4. **Changes in unexpired Risk Reserve**

	₹
Reserve for unexpired Risk (Fire Insurance @ 50%)	
Opening Reserve (A)	4,00,000
Closing Reserve (₹ 9,10,000 x 50/100) (B)	4,55,000
Additional Transfer to Reserve (B) – (A)	55,000
Reserve for unexpired Risk (Marine Insurance @ 100%)	
Opening Reserve (A)	2,80,000
Closing Reserve (₹ 6,70,000 x 100/100) (B)	6,70,000
Additional Transfer to Reserve (B) – (A)	3,90,000

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

S.No.	*Amount (₹)*	*Due date (year 2019)*	*Unexpired portion from 31st March, 2019*	*Rate of discount*	*Rebate on bills discounted (₹)*
(i)	25,00,000	June 16	77 days	10%	52,740
(ii)	50,00,000	May 25	55 days	11%	82,877
(iii)	40,00,000	July 1	92 days	12%	1,20,986
	115,00,000				2,56,603

(ii) In the books of Saregama Bank Ltd.

Journal Entries

	Particulars		*Dr. (₹)*	*Cr. (₹)*
(1)	Rebate on bills discounted A/c	Dr.	2,25,000	
	To Discount on bills A/c			2,25,000
(2)	Bills Purchased & Discounted	Dr.	480,00,000	
	To Discount on bills A/c			15,20,000
	To Clients A/c			464,80,000
(3)	Discount on bills A/c	Dr.	2,56,603	
	To Rebate on bills discounted A/c			2,56,603
(4)	Discount on bills A/c	Dr.	14,88,397	
	To Profit and Loss A/c (W.N)			14,88,397

(iii) Rebate on bills discounted Account

		₹			₹
2018			2018		
April 1	To Discount on bills A/c	2,25,000	April 1	By Balance b/d	2,25,000
2019			2019		
March 31	To Balance c/d	2,56,603	March 31	By Discount on bills A/c	2,56,603
		4,81,603			4,81,603

(iv) Discount on bills Account

		₹			₹
2019			*2019*		
March 31	To Rebate on bills discounted A/c	2,56,603	April 1	By Rebate on bills discounted A/c	2,25,000
	To Profit and loss A/c	14,88,397	March 31	By Bills purchased and discounted A/c	15,20,000
		17,45,000			17,45,000

Working Note

Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discounted A/c as on 1.4.18	2,25,000
Add: Discount received during the year ended 31st March, 2019	15,20,000
	17,45,000
Less: Rebate on bills discounted as on 31st March, 2019	(2,56,603)
Discount credited to Profit and Loss Account	14,88,397

Question 6

(a) M/s. Bombay Cotton has 2 Departments Y and Z. The following information is provided for the year ended 31st March, 2019:

Particulars	*Department Y (₹)*	*Department Z (₹)*
Opening Stock	*60,000*	*40,000*
Purchases	*1,20,000*	*3,05,400*
Wages	*70,000*	*32,000*
Sales	*3,10,300*	*3,72,700*
Closing Stock	*23,700*	*40,700*

Other Expenses are:

Particulars	*Amount in (₹)*
Salaries	*30,000*
Rent	*9,000*
Advertisement	*24,000*
General Expenses	*3,000*
Depreciation	*18,000*

Expenses are to be allocated between the Departments in the ratio of their Gross Profit.

Department Y sells goods to Department Z at a profit of 25% on sales. Department Z sells goods to Department Y at a profit of 28% on cost.

Each Department Manager is entitled to 10% Commission on Net Profit subject to unrealized profit on departmental sales being eliminated.

Stock Transfer during the year from Department Y to Department Z was ₹ 40,000 and from Department Z to Department Y was ₹ 50,000.

Closing Stock includes transfer from Department Y to Department Z ₹ 12,000 and from Department Z to Department Y ₹ 21,200. Opening stocks do not include any inter department transfer.

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2019.

(b) The Washington branch of ABC India sent the following trial balance as on 31st December, 2017.

Particular	*$*	*$*
Head office A/c	-	*13,680*
Sales	-	*50,400*
Debtors and creditors	*2,880*	*2,040*
Machinery	*14,400*	-
Cash at bank	*720*	-
Stock, 1 January, 2017	*6,720*	-
Goods from H.O.	*38,400*	-
Expenses	*3,000*	-
	66,120	*66,120*

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

Particulars		*Particulars*	
To Balance b/d	*4,86,000*	*By Cash*	*23,25,600*
To Goods sent to branch	*23,55,600*	*By Balance c/d*	*5,16,000*
	28,41,600		*28,41,600*

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2012, when $ 1.00 = ₹ 46.

Exchange rate per US$ were:

1st January, 2017	*₹ 64*
31st December, 2017	*₹ 66*
Average Rate	*₹ 65*

Machinery is depreciated @ 10% on written down value basis.

The branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to prepare in the books of Head Office:

(i) Branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency

(iii) Branch Trading & Profit and Loss Account in Rupees

(iv) Branch Account. ***(8 + 8 = 16 Marks)***

Answer

(a) Departmental Trading Account in the books of M/s. Bombay Cotton for the year ended 31st March, 2019

Particulars	Department Y (₹)	Department Z (₹)	Particulars	Department Y (₹)	Department Z (₹)
To Opening Stock	60,000	40,000	By Sales	3,10,300	3,72,700
To Purchase	1,20,000	3,05,400	By Transfers	40,000	50,000
To Wages	70,000	32,000	By Closing Stock:	23,700	40,700
To Transfers	50,000	40,000			
To Gross Profit c/d	74,000	46,000			
	3,74,000	4,63,400		3,74,000	4,63,400
To Salaries	18,500	11,500	By Gross Profit	74,000	46,000

To Rent	5,550	3,450	b/d		
To Advertisement	14,800	9,200			
To General Expenses	1,850	1,150			
To Depreciation (all expenses divided in ratio of 37: 23)	11,100	6,900			
To Net profit c/d	22,200	13,800			
	74,000	46,000		74,000	46,000
To Unrealized profit	3,000	4,638	By Net Profit b/d	22,200	13,800
To Manager's commission	1,920	916			
To Net profit	17,280	8,246			
	22,200	13,800		22,200	13,800

Working notes:

1. **Unrealized profit included in the closing stock**

   Department Y = $21,200 \times \frac{28}{128} = 4,637.50$ (rounded off as ₹ 4,638)

   Department Z = 12,000 x 25%= 3,000

2. **Calculation of Manager's Commission**

Particulars	*Department Y (₹)*	*Department Z (₹)*
Net Profit	22,200	13,800
Less: Stock Reserve	3,000	4,638
	19,200	9,162
Manager's Commission @ 10%	1,920	916

(b) (i) **In the Books of Head Office**

Branch Trading and Profit & Loss A/c (in Dollars) for the year ended 31st December, 2017

	Particulars	*$*		*Particulars*	*$*
To	Opening stock	6,720	By	Sales	50,400
To	Goods from H.O.	38,400	By	Closing stock (W.N.2)	4,800

To	Gross profit c/d	10,080			
		55,200			55,200
To	Expenses	3,000	By	Gross profit b/d	10,080
To	Depreciation	1,440			
To	Manager's commission (W.N.1)	282			
To	Net profit c/d	5,358			
		10,080			10,080

(ii) Converted Branch Trial Balance (into Indian Currency)

Particulars		*Rate per $*	*Dr. (₹)*	*Cr. (₹)*
Machinery	14,400	46	6,62,400	_
Stock January 1, 2017	6,720	64	4,30,080	-
Goods from head office		Actual	23,55,600	_
Sales	50,400	65	_	32,76,000
Expenses	3,000	65	1,95,000	_
Debtors & creditors	2,880/2,040	66	1,90,080	1,34,640
Cash at bank	720	66	47,520	_
Head office A/c		Actual	_	5,16,000
Exchange Difference (Balancing Figure)			45,960	_
			39,26,640	39,26,640
Closing stock $ 4,800 (W.N. 2)		66		₹ 3,16,800

(iii) Branch Trading and Profit & Loss A/c

for the year ended 31st December, 2017

		₹			₹
To	Opening stock	4,30,080	By	Sales	32,76,000
To	Goods from head office	23,55,600	By	Closing stock (W.N.2)	3,16,800
To	Gross profit c/d	8,07,120			
		35,92,800			35,92,800

To	Expenses	1,95,000	By	Gross profit b/d	8,07,120
To	Depreciation @ 10% on ₹ 6,62,400	66,240			
To	Exchange difference	45,960			
To	Manager's commission (W.N.1)	18,612			
To	Net Profit c/d	4,81,308			
		8,07,120			8,07,120

(iv) Branch Account

		₹			₹
To	Balance b/d	5,16,000	By Machinery	6,62,400	
To	Net profit	4,81,308	*Less:* Depreciation	(66,240)	5,96,160
To	Creditors	1,34,640	By Closing stock		3,16,800
To	Outstanding commission	18,612	By Debtors		1,90,080
			By Cash at bank		47,520
		11,50,560			11,50,560

Working Notes:

1. Calculation of manager's commission @ 5% on profit

i.e. 5% of $[10,080 – (3,000 + 1,440)]

Or 5% × $5,640 = $ 282

Manager's commission in Rupees = $ 282 × ₹ 66 = ₹ 18,612

2. Calculation of closing stock	$
Opening stock	6,720
Add: Goods from head office	38,400
	45,120
Less: Cost of goods sold (at invoice price) i.e. $\frac{100}{125} \times 50,400$	(40,320)
Closing stock	4,800

Closing stock in Rupees = $4,800 x ₹ 66 = ₹ 3,16,800.

Question 7

*Answer any **four** of the followings :*

(a) (i) The liquidator of a company is entitled to a remuneration of 2% on assets realized

and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 40,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 16,48,000.

Calculate liquidator's remuneration, if the surplus is insufficient to pay off unsecured creditors, in total.

(ii) *A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 37,50,000 against which payment was made as follows:*

Liquidation Expenses	*₹ 37,500*
Secured Creditors	*₹ 15,00,000*
Preferential Creditors	*₹ 1,12,500*

The amount due to Unsecured Creditors was ₹ 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator.

Calculation shall be made to the nearest multiple of a rupee.

(b) *During 2016-17, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:*

Particular	*₹*
Completion of detailed program and design (Phase 1)	*50,000*
Coding and Testing (Phase 2)	*40,000*
Other coding costs (Phase 3 & 4)	*63,000*
Testing costs (Phase 3 & 4)	*18,000*
Product masters for training materials (Phase 5)	*19,500*
Packing the products (1,500 units) (Phase 6)	*16,500*

After completion of phase 2, it was established that the product is technically feasible for the market.

You are required to state how the above referred cost to be recognized in the books of accounts.

(c) *Compute the amount of Provisions to be made in Profit and Loss Account of SG Bank for the year ending 31st March, 2019.*

Assets	*₹ in lakhs*
Standard *(includes ₹ 1,000 lakhs to Commercial Real Estate-Residential Housing Sector CRE-RH)*	*10,000*

Sub-standard Secured	*5,000*
Sub-Standard Unsecured	*2,000*
(includes ₹500 lakhs for infrastructure loan accounts where ESCROW accounts are available)	
Doubtful Advance Secured	
- *Upto 1 Year*	*1,000*
- *1 Year and upto 3 Years*	*500*
- *Above 3 Years*	*200*
- *Unsecured*	*300*
Loss Assets	*500*

(d) Balance Sheet of Ram & Co. on 31st March, 2017 is given below:

Liabilities	*₹*	*Assets*	*₹*
Capital	*50,000*	*Fixed Assets*	*69,000*
Profit and Loss A/c	*29,000*	*Stock in Trade*	*43,000*
10% Loan	*43,000*	*Trade Receivables*	*10,000*
Trade Payables	*18,000*	*Deferred Expenditure*	*15,000*
		Bank	*3,000*
	1,40,000		*1,40,000*

Additional Information :

i. Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31st March, 2018 was ₹54,000.

ii. Firm's sales and purchases for the year 2017-18 amounted to ₹3.55 lacs and ₹2.50 lacs respectively.

iii. The cost and net realizable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.

iv. General Expenses for the year 2017-18 were ₹16,500.

v. Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2016-17 i.e. ₹ 5,000 per year.

vi. Out of debtors worth ₹10,000, collection of ₹4,000 depends on successful redesign of certain product already supplied to the customer.

vii. Closing trade payable is ₹ 10,000, which is likely to be settled at 95%.

viii. There is pre-payment penalty of ₹2,000 for Bank loan outstanding, *Prepare Profit & Loss Account for the year ended 31st March, 2018 by assuming it is not a Going Concern.*

(e) *The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2019.*

(i) *In lieu of present holding the Equity Shareholders are to receive :*

(a) *Fully Paid Equity Shares equal to 3/5th of their holding.*

(b) *8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.*

(c) *10% Second Debentures of ₹ 40,000.*

(ii) *An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for cash,*

(iii) *The Assets were reduced as follows:-*

(a) *Building from ₹ 2,00,000 to ₹ 1,50,000*

(b) *Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000*

(c) *Goodwill from ₹ 30,000 to Nil.*

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction. ***(4 Parts x 4 Marks = 16 Marks)***

Answer

(a) (i) Calculation of liquidator's remuneration:

	₹
Liquidator's remuneration on assets realised (₹ 40,00,000 x 2 /100)	80,000
Liquidator's remuneration on payment to unsecured creditors (₹ 16,48,000 x 3/103)	48,000
Total liquidator's remuneration	1,28,000

(ii) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realised	37,50,000 x 2%	75,000
3% on payment made to Preferential creditors	1,12,500 x 3%	3,375
3% on payment made to Unsecured creditors (Refer W.N)		58,882
Total Remuneration payable to Liquidator		1,37,257

Working Note:

Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 37,50,000 – ₹ 37,500 – ₹ 15,00,000 – ₹ 1,12,500 – ₹ 75,000 – ₹ 3,375 = ₹ 20,21,625.

Liquidator's remuneration

= 3/103 x ₹ 20,21,625= ₹ 58,882

(b) As per AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed program design or working model.

In this case, ₹ 90,000 would be recorded as an expense (₹ 50,000 for completion of detailed program design and ₹ 40,000 for coding and testing to establish technological feasibility/asset recognition criteria).

Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (63,000+ 18,000+ 19,500) = ₹ 1,00,500. Packing cost ₹ 16,500 should be recognized as expenses and charged to P & L A/c.

(c) **Statement showing the amount of provisions on Assets**

			(₹ in lakhs)
Assets	*Amount*	*% of provision*	*Provision*
Standard:			
Advances to Commercial Real Estate Residential Housing Sector	1,000	.75	7.5
Others	9,000	.40	36
Sub-standard:			
Secured	5,000	15	750
Other unsecured	1,500	25	375
Unsecured infrastructure	500	20	100
Doubtful:			
up to one year	1,000	25	250

More than one year but up to 3 years	500	40	200
For more than three years	200	100	200
Doubtful unsecured	300	100	300
Loss	500	100	500
Required provision			2,718.5

(d) Profit and Loss Account of Ram & Co. for the year ended 31st March, 2018

(Assuming business is not a going concern)

	₹		₹
To Opening Stock	43,000	By Sales	3,55,000
To Purchases	2,50,000	By Closing Stock	38,000
To Gross profit c/d	1,00,000		
	3,93,000		3,93,000
To Expenses	16,500	By Gross profit b/d	1,00,000
To Depreciation (69,000–54,000)	15,000	By Discount on Trade payables	500
To Provision for doubtful debts	4,000		
To Deferred expenditure	15,000		
To Loan penalty	2,000		
To Net Profit	48,000		
	1,00,500		1,00,500

(e) Journal Entries in the books of S Ltd.

2019		Dr. ₹	Cr. ₹
April 1	Equity Share Capital A/c (₹ 10) Dr.	5,00,000	
	To Equity Share Capital A/c		3,00,000
	To 8% Preference Equity Share Capital A/c		60,000
	To 10% Second Debentures A/c		40,000
	To Capital Reduction /Reconstruction A/c		1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)		

	Capital Reduction / Reconstruction A/c	Dr.	1,00,000	
	To Building A/c			50,000
	To Plant and Machinery A/c			20,000
	To Goodwill A/c			30,000
	(Being value of building and plant and machinery reduced and goodwill written off completely.)			
	Bank A/c	Dr.	1,00,000	
	To 8% First Debentures A/c			1,00,000
	(Being ₹ 1,00,000 debentures issued)			