PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2022 EXAMINATION

A. Applicable for November 2022 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 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Appendix "Schedule III to the Companies Act" in Module II of September, 2021 Edition. The students are advised to refer the link https://resource.cdn.icai.org/66657bos53803-mod2-appx.pdf for the revised content.

II. The Institute of Chartered Accountants of India revised the Guidance Note on Accounting for Share-based Payments in year 2020. This revised Guidance Note is applicable for the topic "Accounting for Employee Stock Option Plans" for November, 2022 Examination. The provisions of the Guidance Note cover employee stock option plans, the grant date in respect of which falls on or after 1 April 2021. An enterprise is not required to apply this Guidance Note to employee stock option plans to equity instruments that are not fully vested as on 1 April 2021. The chapter on "Employee Stock Option Plans" given in Module II of September, 2021 Edition of the Study Material is revised accordingly. The students are advised to refer link https://resource.cdn.icai.org/66641bos53803-cp3.pdf for the revised chapter.

III. Limited Liability Partnership (Amendment) Act, 2021

The Ministry of Law and Justice made amendments to the Limited Liability Partnership Act, 2008 (LLP Act) through the LLP (Amendment) Act, 2021. The relevant amendments (for para 1.8 "Issues related to Accounting in LLPs" of unit 1 of chapter 2 of the study material) can be given as follows:

In section 2 of the LLP Act, 2008, in sub-section (1), the following clause has been inserted:

"Small limited liability partnership" means a limited liability partnership—

(i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and

(ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or

Definition of business has been amended. As per the Amendment, definition of "business" includes every trade, profession, service [and occupation except any activity which the Central Government may, by notification, exclude].

Designated Partners

In section 7 of the LLP Act, 2008— (a) in sub-section (1), in the Explanation, for the words "eighty-two days during the immediately preceding one year", the words "twenty days during the financial year" shall be substituted. Thus, now for the purposes of this section, the term resident in India means a person who has stayed in India for a period of not less than one hundred and twenty days during the financial year.

Financial Disclosures and Returns

In section 34 of the LLP Act, 2008, under sub-section (4), the following shall be added:

Provided that the Central Government may, by notification in the Official Gazette, exempt any class or classes of limited liability partnerships from the requirements of this sub-section.

For sub-section (5), the following sub-sections shall be substituted, namely:

"(5) Any limited liability partnership which fails to comply with the provisions of sub-section (3), such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for every designated partner.

(6) Any limited liability partnership which fails to comply with the provisions of sub-section (1), sub-section (2) and sub-section (4), such limited liability partnership shall be punishable with fine which shall not be less than twenty-five thousand rupees, but may extend to five lakh rupees and every designated partner of such limited liability partnership shall be punishable with fine which shall not be less than ten thousand rupees, but may extend to one lakh rupees."

In section 35 of the LLP Act, 2008, the following shall be inserted:

[(2) If any limited liability partnership fails to file its annual return under sub-section (1) before the expiry of the period specified therein, such limited liability partnership and its designated partners shall be liable to a penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of one lakh rupees for the limited liability partnership and fifty thousand rupees for designated partners.]

IV. SLR holdings in Held to Maturity (HTM category) (relevant for chapter 8 "Banking Companies" of the study material))

Vide circular RBI/2022-23/21; DOR.MRG.REC.14/21.04.141/2022-23 dated April 8, 2022, it has now been decided by the RBI to further enhance the existing HTM limit of 22 per cent of NDTL to 23 per cent of NDTL and allow banks to include securities acquired between April 1, 2022 and March 31, 2023 under the enhanced limit of 23 per cent. At present, banks have been granted a special dispensation of enhanced Held to Maturity (HTM) limit of 22 per cent of Net Demand and Time Liabilities (NDTL), for Statutory Liquidity Ratio (SLR) eligible securities acquired between September 1, 2020 and March 31, 2022, until March 31, 2023. The enhanced HTM limit of 23 per cent 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, 2023 shall be progressively reduced such that the total SLR securities held in the HTM category as a percentage of the NDTL do not exceed:

(a) 22.00 per cent as on June 30, 2023

(b) 21.00 per cent as on September 30, 2023

(c) 20.00 per cent as on December 31, 2023

(d) 19.50 per cent as on March 31, 2024

NOTE: September, 2021 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for November 2022 Examination.

B. <u>Not applicable for November, 2022 examination</u>

Non-Applicability of Ind AS for November, 2022 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 2022 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of Partnership Firm

1. (a) The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2020. Their balance sheet as on that date is given below:

Equity & Liabilities	*Amount ₹*	*Assets*	*Amount ₹*
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000

R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan- P	13,000
		Loan- Q	7,000
Total	1,63,500	Total	1,63,500

(a) The partners share profit and losses in the ratio of 4:3:2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows:

January 2021

- ₹ 9,000 - collected from debtors; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 - Liquidation expenses paid.
- ₹ 6,000 - Cash retained in the business at the end of month

February 2021

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 - Cash retained in the business at the end of month

March 2021

- ₹ 38,000 - received on the sale of remaining plant and machinery.
- ₹ 10,000 - received from the sale of entire stock.
- ₹ 1,700 - Liquidation expenses paid.
- ₹ 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

Limited Liability Partnerships

(b) Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances?

Conversion of Partnership firm into a company

2. A and V, sharing profits and losses equally, desired to convert their business into a limited company on 31st December, 2021 when their balance sheet stood as follows:

Equity & Liabilities	₹	₹	*Assets*	₹
Sundry creditors		1,92,000	Sundry debtors	2,40,000
Loan creditors		1,60,000	Bills receivable	40,000
Bank overdraft		64,000	Stock in trade	1,44,000
Reserve fund		24,000	Patents	32,000
Capital accounts:			Plant and machinery	64,000
A	1,60,000		Land and building	2,40,000
V	1,60,000	3,20,000		
		7,60,000		7,60,000

(a) The goodwill of the firm was to be valued at two years' purchase of the profits average of the previous three years.

(b) The loan creditor agreed to accept 7½% redeemable preference shares in settlement of his claim.

(c) Land and buildings and plant and machinery were to be valued at ₹ 4,00,000 and ₹ 96,000 respectively.

(d) The vendors were to be allotted equity shares.

(e) The past working results of the firm showed that they had made profits of ₹ 1,20,000 in 2019, ₹ 1,44,000 in 2020 and ₹ 1,68,000 in 2021 after setting aside ₹ 8,000 to reserve fund each year.

You are required to show realisation account and partners' capital accounts in the books of the firm assuming that all the transactions are duly completed.

Accounting for ESOPs

3. Mehta Ltd. grants 1,500 stock options to its employees on 1.4.2019 at ₹ 50. The vesting period is two and a half years. The maximum exercise period is one year. Market price on that date is ₹ 80. Fair value per option is ₹ 30. All the options were exercised on 31.7.2022. Give the necessary journal entries if the face value of equity share is ₹ 10 per share.

Buy Back of Securities

4. Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount

being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Equity Shares with Differential Rights

5. (a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?

   (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

   You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹ 40 Lakh.

Amalgamation of Companies

6. The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (₹)	Myth Ltd. (₹)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		22,75,000	11,45,000
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		22,75,000	11,45,000

Note No.	Particulars	Truth Limited (₹)	Myth Limited (₹)
1	Share Capital		
	Equity shares of ₹ 10 each	10,00,000	4,00,000
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non- Current Liabilities		
	14% Debentures	---	1,50,000
4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
		1,40,000	1,82,000
5	Current Assets		
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

Internal Reconstruction of a Company

7. Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2022 before reconstruction:

Particulars	Note No.	Amount (₹ In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		**2,556**
Assets		
Non-Current Assets:		
PPE	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		**2,556**

Notes to Accounts:

		₹ In lakh
(1)	Share capital	
	Authorised:	
	300 lakh Equity shares of ₹ 10 each	3,000
	12 lakh, 8% preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of ₹ 10 each, fully paid up	1,500

	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050
(4)	Trade payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	PPE	
	Freehold Property	825
	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 lakhs.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction.

Liquidation of Company

8. Debit and credit Balances of Blossam Ltd as on 31.12.2021 were as follows:

Dr. Balances		Cr. Balances	
		Share Capital:	
Land & Building	1,25,000	8,000 Preference Shares of ₹ 10 each	80,000
Other Fixed Assets	3,00,000	12,000 Equity Shares of ₹ 10 each	1,20,000
Inventory	5,25,000	Bank Loan	4,00,000
Trade receivables	1,00,000	8% Debentures	1,00,000
Surplus a/c (-ve bal.)	58,000	Interest Outstanding on Debentures	8,000
		Trade payables	4,00,000
	11,08,000		11,08,000

The Company went into Liquidation on that date. Prepare liquidator's account after taking following:

(a) Liquidation Expenses ₹ 3,000.

(b) Liquidation Remuneration ₹ 10,000.

(c) Bank Loan was secured by pledge of Stock.

(d) Debentures & Interest thereon are secured by floating charge on all assets.

(e) Fixed Assets were realized at book values and Current Assets @ 80% of book values.

NBFCs

9. XYZ Finance Ltd. is a non-banking finance company. The extract of its balance sheet are as follows: (₹ in lakhs)

	Amount
Equity and Liabilities	
Paid-up equity capital	200
General Reserve	600
Non-Current Liabilities	
Loans	500
Deposits	600
	1,900
Assets	
Non-current assets	
Property Plant and Equipment	900
Investments:	
In shares of subsidiaries	250
In debentures of group companies	400
Current Assets	
Cash and bank balances	350
	1,900

You are required to compute 'Net Owned Fund' of XYZ Finance Ltd. as per Non-Banking Financial Company – Systemically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016.

Banking Companies

10. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2022.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000

Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

(i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2021 was ₹ 19,000 and on 31.3.2022 was ₹ 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide ₹ 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3.2021.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2022.

Consolidated Financial Statements

11. On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	–

Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021 at which date the following balances stood in the books of S Ltd.:

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

(b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2021, the Inventory of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on cost.

(e) Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
	611	507
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as on 31st March, 2022.

AS 4 Contingencies and Events occurring after the Balance Sheet Date

12. Explain accounting treatment of Contingent Gains as per AS 4 "Contingencies and Events occurring after the Balance Sheet Date".

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

13. (a) Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

AS 7 Construction Contracts

(b) On 1st December, 2020, "Sampath" Construction Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31st March, 2021 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2021 based on AS 7 "Accounting for Construction Contracts."

AS 9 Revenue Recognition

14. When revenue will be recognized in the following situation:

(i) Where the purchaser makes a series of installment payments to the seller and the seller deliver the goods only when the final payment is received.

(ii) Where seller concurrently agrees to repurchase the same goods at a later date.

(iii) Where goods are sold to distributors, dealers or others for resale.

(iv) Commissions on service rendered as agent on insurance business.

AS 17 Segment Reporting

15. A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

AS 18 Related Party Transactions

16. SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited?

AS 19 Leases

17. WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment's costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%. You are required to compute the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

AS 20 Earnings Per Share

18. The following information relates to XYZ Limited for the year ended 31st March, 2022:

Net Profit for the year after tax: ₹ 37,50,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹ 100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

AS 22 Accounting for Taxes on Income

19. (a) Define followings as per AS 22:

(i) Accounting income (loss)

(ii) Taxable income (tax loss)

(iii) Tax expense (tax saving)

AS 24 Discontinuing Operations

(b) What are the disclosure requirement in interim financial reports as per AS 24 for discontinuing operations?

AS 26 Intangible Assets

20. (a) K Ltd. launched a project for producing product X in October, 2021. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2022. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) Chaos Limited is in the process of finalizing its accounts for the year ended 31st March, 2022. It seeks your advice in the following cases:

(i) Chaos Limited entered into an agreement to supply 1 lac face masks to D Limited by 30th April, 2022 failing which it will have to pay a penalty of ₹ 10 per item not supplied. On 31st March, 2022 Chaos Limited assessed that it could only supply 50,000 face masks to D Limited by 30th April, 2022.

(ii) Chaos Limited has filed a court case in 2014-2015 against its competitors. It is evident to its lawyers that Chaos Limited may lose the case and would have to pay ₹ 3,00,000 being the cost of litigation. No entries/provisions have been made in the books.

(iii) A new regulation has been passed in 2021-22 by the healthcare ministry to upgrade facilities. Deadline set by the government is 31.03.2023. The company estimates an expenditure of ₹ 10,00,000 for the said upgrade.

Kindly give your answer for each of above with proper reasoning according to the relevant Accounting Standard. Also state the principles for recognition of provision, as per AS 29.

SUGGESTED ANSWERS

1. (a)

Particulars	*Cash*	*Creditors*	*Capitals*		
	₹	*₹*	*P (₹)*	*Q (₹)*	*R (₹)*
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	(3,000)
Balance due	-	-	52,000	43,500	29,000
February					
Opening Balance	6,000				
Expenses paid and cash carried forward	3,000				
Available for distribution	3,000				

Cash paid to Q and Machinery given to R			-	3,000	9,000
Balance due	-		52,000	40,500	20,000
March					
Opening Balance	2,000				
Amount realized less expenses	87,300				
Amount paid to partners	89,300		41,689	32,767	14,844
Loss			10,311	7,733	5,156

Working Note:

(i) **Highest Relative Capital Basis**

	P (₹)	*Q (₹)*	*R (₹)*
Scheme of payment for January 2021			
Balance of Capital Accounts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base (B)	52,000	39,000	26,000
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital / Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) **Scheme of distribution of available cash for March:**

	P (₹)	*Q (₹)*	*R (₹)*
Balance of Capital Accounts at end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital / Profit sharing Ratio	13,000	13,500	10,000

Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital / Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment ₹ 1500 (C)		(1,500)	
Balance of Excess Capital (i –C)	12,000	9,000	
Payment ₹ 21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (₹ 89,300 – ₹ 22,500) = ₹ 66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (₹ 89,000) (C + D +E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

(b) Under section 27 (3) LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise shall be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The liabilities of an LLP shall be met out of the assets / properties of the LLP. However, a partner shall be liable for his own wrongful acts or commissions, but shall not be liable for the wrongful acts or commissions of other partners of the LLP. Wrongful acts will include acts of fraud and wilful omissions. Hence, the liability may fall only on that partner, who is guilty of any wrongful acts or commissions in respect of debts or liabilities acquired by such acts.

2. **Books of A and V**

Realisation Account

	₹	₹		₹
To Sundry debtors		2,40,000	By Sundry creditors	1,92,000
To Bills receivable		40,000	By Loan creditors	1,60,000
To Stock in trade		1,44,000	By Bank overdraft	64,000
To Patents		32,000	By Purchasing Company	8,40,000
To Plant and Machinery		64,000	(W.N. 2)	

To Land and Building		2,40,000		
To Capital A/c (Profit)				
A	2,48,000			
V	2,48,000	4,96,000		
		12,56,000		12,56,000

Partners' Capital Accounts

	A	V		A	V
	₹	₹		₹	₹
To Shares in Purchasing Company	4,20,000	4,20,000	By Balance b/d	1,60,000	1,60,000
			By Reserves	12,000	12,000
			By Realization A/c	2,48,000	2,48,000
	4,20,000	4,20,000		4,20,000	4,20,000

Working Notes:

1. Goodwill = (1,20,000 + 1,44,000 + 1,68,000 + 24,000*)/3 x 2 Years = 3,04,000

   *Profit transferred to reserve @ ₹ 8,000 for 3 years.

2. **Calculation of Purchase Consideration**

	₹	₹
Assets taken over:		
Goodwill (W.N.1)		3,04,000
Land and Buildings		4,00,000
Plant and Machinery		96,000
Debtors		2,40,000
Bills Receivable		40,000
Stocks		1,44,000
Patents		32,000
		12,56,000
Less: Liabilities taken over:		
Creditors	1,92,000	
Loan Creditors	1,60,000	
Bank Overdraft	64,000	4,16,000
Purchase Consideration		8,40,000

3. **Books of Mehta Ltd.**

Journal Entries

Date	*Particulars*		*Debit* ₹	*Credit* ₹
31.3.2020	Employees Compensation Expense Account	Dr.	18,000	
	To Employees Stock Option Outstanding Account			18,000
	(Being compensation expense recognized in respect of 1,500 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2½ years) (Refer WN)			
	Profit and Loss Account	Dr.	18,000	
	To Employees Compensation Expense Account			18,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.2021	Employees Compensation Expense Account	Dr.	18,000	
	To Employees Stock Option Outstanding Account			18,000
	(Being compensation expense recognized in respect of 1,500 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2½ years) (Refer WN)			
	Profit and Loss Account	Dr.	18,000	
	To Employees Compensation Expense Account			18,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.2022	Employees Compensation Expense Account	Dr.	9,000	
	To Employees Stock Option Outstanding Account			9,000
	(Being balance of compensation expense amortized ₹ 45,000 less ₹ 36,000) (Refer WN)			
	Profit and Loss Account	Dr.	9,000	

	To Employees Compensation Expense Account			9,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.7.2022	Bank Account (₹ 50 × 1,500)	Dr.	75,000	
	To Equity Share Capital Account			15,000
	To Securities Premium Account			60,000
	(Being exercise of 1,500 options at an exercise price of ₹ 50)			
31.7.2022	Stock Option Outstanding A/c (₹ 30 x 1,500)	Dr.	45,000	
	To Securities Premium Account			45,000
	(Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c)			

Working Notes:

1. Total employees compensation expense = 1,500 x (₹ 80 – ₹ 50) = ₹ 45,000
2. Employees compensation expense has been written off during 2½ years on straight line basis as under:

   I year = ₹ 18,000 (for full year)

   II year = ₹ 18,000 (for full year)

   III year = ₹ 9,000 (for half year)

4. Journal Entries in the books of Umesh Ltd.

			₹	₹
1.	Bank A/c	Dr.	10,00,000	
	To 11% Preference share application & allotment A/c			10,00,000
	(Being receipt of application money on preference shares)			
2.	11% Preference share application & allotment A/c	Dr.	10,00,000	
	To 11% Preference share capital A/c			10,00,000
	(Being allotment of 1 lakh preference shares)			

3.	General reserve A/c	Dr.	30,00,000	
	To Capital redemption reserve A/c			30,00,000
	(Being creation of capital redemption reserve for buy back of shares)			
4.	Equity share capital A/c	Dr.	40,00,000	
	Premium payable on buyback A/c	Dr.	48,00,000	
	To Equity shareholders/Equity shares buy back A/c			88,00,000
	(Amount payable to equity shareholder on buy back)			
5.	Equity shareholders/ Equity shares buy back A/c	Dr.	88,00,000	
	To Bank A/c			88,00,000
	(Being payment made for buy back of shares)			
6.	Securities Premium A/c	Dr.	16,00,000	
	General reserve A/c		32,00,000	
	To Premium payable on buyback A/c			48,00,000
	(Being premium on buyback charged from securities premium and general reserve)			

Working Notes:

1. Calculation of amount used from General Reserve Account

		₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)		88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)		(10,00,000)
Less: Utilization of Securities Premium Account		(16,00,000)
Balance used from General Reserve Account		62,00,000
* Used under Section 68 for buy back	32,00,000	
Used under Section 69 for transfer to CRR (W.N 2)	30,00,000	
	62,00,000	

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000

Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	30,00,000

5. **(a)** Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L = 2/3X30/100 = 3/15

M = 2/3X30/100 = 3/15

N = 2/3X20/100 = 2/15

O = 2/3X20/100 = 2/15

X = 1/3X40/100 = 2/15

Y = 1/3X30/100 = 1/10

Z = 1/3X20/100 = 1/15

K = 1/3X10/100 = 1/30

6. **Balance Sheet of Truth Ltd. (after amalgamated with Myth Ltd.) as at 1.4.2021**

Particulars	*Note No.*	*(₹)*
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		38,87,000

II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		38,87,000

Notes to Accounts

			(₹)	(₹)
1.	Share Capital			
	1,31,375 Equity Shares of ₹ 10 each [1,00,000 + 31,375]			13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)			
2.	Reserves and surplus			
	General Reserve		5,05,000	
	Profit and Loss A/c		4,45,000	
	Securities Premium [31,375 x 30]		9,41,250	
	Export profit reserve	1,85,000		
	Add: Balance of Myth Ltd.	25,000	2,10,000	
	Amalgamation Adjustment Reserve		(25,000)	20,76,250
3.	Long Term Borrowings			
	12% Debentures issued to Myth Ltd.			1,75,000
4.	Trade payables			
	Trade payables		90,000	
	Add: Taken over		1,42,000	2,32,000
5	Other Current Liabilities			
	Truth Ltd.		50,000	
	Myth Ltd.		40,000	90,000
6.	Property, Plant & Equipment			
	Truth Ltd.		15,75,000	
	Myth Ltd.		6,80,000	22,55,000

7.	Investment		
	Truth Ltd.	1,87,500	
	Myth Ltd.	1,00,000	2,87,500

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		Myth Ltd.	
	₹	₹	₹	₹
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
		21,25,000		10,65,000
Less: Liabilities:				
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		19,85,000		7,33,000

(ii) Average Profit before Tax

	Truth Ltd.		Myth Ltd.	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
		6,93,000		2,16,000
(iii) Goodwill				
Capitalised value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		18,65,000		4,67,000

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and

Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

		Truth Ltd.		Myth Ltd.
		₹		₹
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= ₹ 40		= ₹ 31.375

** $1,50,000 \times \frac{14\%}{12\%} = 1,75,000$

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	₹ 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	₹ 12,55,000
Intrinsic Value of Truth Ltd. [d]	₹ 40 per share
No. of shares to be issued [c / d]	31,375 shares

7. (a) Journal Entries related to internal reconstruction in the books of Planet Ltd.

(₹ in lakhs)

	Particulars		Debit ₹	Credit ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	600	
	To 8% Preference share capital A/c (₹ 75 each)			450
	To Capital reduction A/c			150
	(Being the preference shares of ₹ 100 each reduced to ₹ 75 each as per the approved scheme)			
ii	Equity share capital A/c (₹ 10 each)	Dr.	1,500	

	To Equity share capital A/c (₹ 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (₹ 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each)			
iv	6% Debentures A/c	Dr.	450	
	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c			175
	(Being appreciation (550-375) in the value of freehold property)			
vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (₹ 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each)			
ix	Capital Reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72

	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital Reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account (₹ in lakhs)

To	Equity Share Capital	48	By	8% Pref. Share Capital	150
To	P & L A/c	783	By	Equity Share Capital	1,200
To	Trade Receivables	270	By	Freehold property	175
To	Inventories	360	By	Bank (profit on sale of investment)	125
To	Bank	72	By	Director's loan	315
To	Capital Reserve	432			
		1,965			1,965

Bank Account (₹ in lakhs)

To	Balance b/d	6	By	Accrued debenture interest	36
To	Investments	300	By	Capital Reduction Account (Penalty on cancellation of contract)	72
To	Capital reduction	125	By	Balance c/d	323
		431			431

(c) Note to Accounts on Share Capital and PPE after implementation of internal reconstruction

Share Capital	*(₹ in lakhs)*
Authorised:	
300 lakh shares of ₹ 2 each	600
12 lakh, 8% Preference shares of ₹ 75 each	900
	1,500
Issued, subscribed and paid up:	
241.5 lakh Equity shares of ₹ 2 each	483

(out of which 91.5 lakh shares have been issued for consideration other than cash)		
6 lakh, 8% Preference shares of ₹75 each fully paid up		450
Total		933
PPE		
Freehold property	825	
Less: Utilised to pay Debenture holders	(450)	
Add: Appreciation	175	550
Plant and machinery		300
Total		850

Working Note:

Calculation of number of equity shares issued

To equity shareholders	150 Lakh
To Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
To Directors	67.5 Lakh
	241.5 Lakh

8. Liquidator's Statement of account

	₹	₹		₹	₹
Assets Realized			Liquidation Expenses.		3,000
Land & Building		1,25,000	Liquidator's Remuneration		10,000
Other Fixed Assets		3,00,000	Debenture holders		
Inventory (80% x 5,25,000)	4,20,000		8% Debentures	1,00,000	
Less: bank loan	(4,00,000)	20,000	Add: Interest Outstanding	8,000	1,08,000
Trade receivables		80,000	Trade payables		4,00,000
(80% x 1,00,000)			Pref. Shareholders		
			On 8,000 Shares @ 50 Paise per Share		4,000
		5,25,000			5,25,000

Working Notes

(a) Value of Debentureholders ₹

8% Debentures	=	1,00,000
Add Interest Outstanding	=	8,000
	=	1,08,000

(b) Value of Preference Shareholders to be paid

8000 Shares @ 50 Paise Per Share

8000 x 0.50 = ₹ 4,000

9. Statement showing computation of 'Net Owned Fund'

S. No			*₹ in lakhs*
	Paid up Equity Capital		200
	Free Reserves		600
(i)		A	800
	Investments		
	In shares of subsidiaries		250
	In debentures of group companies		400
(ii)		B	650
(iii)	10% of A		80
(iv)	Excess of Investment over 10% of A (650 – 80)	C	570
(v)	Net Owned Fund [(A) - (C)] (800 – 570)		230

10. TOP Bank Limited

Profit and Loss Account for the year ended 31st March, 2022

		Schedule	*Year ended 31.03.2022*
			(₹ in '000s)
I.	**Income:**		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18

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

		Year ended 31.3. 2022 (₹ in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5,923.18
		5,923.18
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	3,259.92
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44

VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2021	19.00
Less: Rebate on bills discounted on 31.3. 2022	(25.00)
	5,923.18

11. Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2022

Particulars				*Note No.*	*(₹ in 000's)*
I.	Equity and Liabilities				
	(1)	Shareholder's Funds			
		(a)	Share Capital	1	4,000
		(b)	Reserves and Surplus	2	3,063
	(2)	Minority Interest (W.N.6)			1,560
	(3)	Current Liabilities			
		Trade payables		3	1,118
		Short term provisions		4	482
			Total		10,223
II.	Assets				
	(1)	Non-current assets			
			PPE	5	5,904
	(2)	Current assets			
		(a)	Inventories	6	1,759
		(b)	Trade receivables	7	1,598
		(c)	Cash and cash equivalents	8	512
		(d)	Short term loans and advances	9	450
			Total		10,223

Notes to Accounts

		(₹ in 000's)	(₹ in 000's)
1.	Share Capital		
	Authorised share capital		
	5 lakhs equity shares of ₹ 10 each		5,000
	Issued, Subscribed and Paid up		
	4 lakhs equity shares of ₹ 10 each fully paid		4,000
2.	Reserves and surplus		
	Capital Reserve (Note 5)	679.8	
	General Reserve	928	
	Profit and Loss Account:		
	H Ltd. ₹ 1,305		
	Add: Share in S Ltd ₹ 340.20		
	₹ 1,645.20		
	Less: Dividend wrongly credited ₹ (180)		
	₹ 1,465.20		
	Less: Unrealised profit (50 X 1/5) ₹ (10)	1,455.20	3,063
3.	Trade payables		
	H Ltd.	611	
	S Ltd.	507	1,118
4.	Short –term provisions		
	Provision for Taxation H Ltd. ₹ 220		
	S Ltd. ₹ 180	400	
	Other Provisions H Ltd ₹ 65		
	S Ltd. ₹ 17	82	482
5.	PPE		
	Plant and Machinery		
	H Ltd. ₹ 2,541		
	S Ltd. ₹ 2,450	4,991	
	Furniture and fittings		
	H Ltd. ₹ 615		
	S Ltd. ₹ 298	913	5,904
6.	Inventories		
	Inventory H Ltd. ₹ 983		
	S Ltd. ₹ 786	1,769	
	Less: Unrealised profit (₹ 50 x 1/5)	(10)	1,759

7.	Trade receivables		
	H Ltd.	820	
	S Ltd.	778	1,598
8.	Cash and cash equivalents		
	Cash and Bank Balances H Ltd	410	
	S Ltd.	102	512
9.	Short term loans and advances		
	Sundry Advances H Ltd.	260	
	S Ltd.	190	450

Working Notes:

Share holding pattern

Particulars	Number of Shares	% of holding
a. S Ltd.		
(i) Purchased on 01.04.2021	90,000	
(ii) Bonus Issue (90,000/5 x 3)	54,000	
Total	1,44,000	60% (1,44,000 /2,40,000*x 100)
b. Minority Interest	96,000	40%

*2,40,000 is after issue of bonus shares as per balance sheet as at 31.3.2022

1. **S Ltd. General Reserve**

	(₹ in 000)		(₹ in 000)
To Bonus to equity shareholders $\left(\frac{2,400 \times 3}{8}\right)$	900	By Balance b/d	1,500
		By Profit and Loss A/c	
To Balance c/d	690	(Balancing figure)	90
	1,590		1,590

2. **S Ltd.'s Profit and Loss Account**

	(₹ in 000)		(₹ in 000)
To General Reserve	90	By Balance b/d	633
To Dividend paid on 14.7.2021 $\frac{1,500 \times 20}{100}$	300	By Net Profit for the year (Balancing figure)	567*
To Balance c/d	810		
	1,200		1,200

* Out of ₹ 5,67,000 profit for the year, ₹ 90,000 has been transferred to reserves by S Ltd.

3. **Distribution of Revenue Profits**

	₹ in '000
Revenue Profit as above	567.00
Share of H Ltd. (60%)	340.20
Share of Minority shareholders (567– 340.20)	226.80

4. **Computation of Capital Profits**

	₹ in 000	₹ in 000
General Reserve on the date of acquisition		1,500
Less: Bonus issue of shares		(900)
		600
Profit and Loss Account balance on the date of acquisition	633	
Less: Dividends paid	(300)	333
		933
Share of H Ltd. (60%)		559.80
Share of Minority shareholders		373.20

5. **Computation of Capital Reserve**

		₹ in '000
60% of share capital of S Ltd.		1,440
Add: Share of H Ltd. in the capital profits as in working note (4)		559.80
		1,999.80
Less: Investments in S Ltd.	1,500	
Less: Dividends received out of pre- acquisition profits $\frac{₹\ 300 \times 60}{100}$	(180)	(1,320)
		679.80

6. **Calculation of Minority Interest**

	₹ in '000
40% of share capital of S Ltd.	960.00
Add: Share of Revenue Profits (Note 3)	226.80
Share of Capital Profits (Note 4)	373.20
	1,560.00

12. Accounting Treatment of Contingent Gains

Contingent gains are not recognised in financial statements since their recognition may result in the recognition of revenue which may never be realised. However, when the realisation of a gain is virtually certain, then such gain is not a contingency and accounting for the gain is appropriate.

13. (a) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

(b) Calculation of foreseeable loss for the year ended 31st March, 2021

(as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2021	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Ltd. for the year ended 31st March, 2021.

14. (i) Revenue from sales where the purchaser makes a series of instalment payments to the seller, and the seller delivers the goods only when the final payment is received, should not be recognised until goods are delivered. However, when experience indicates that most such sales have been consummated, revenue may be recognised when a significant deposit is received.

(ii) For sale where seller concurrently agrees to repurchase the same goods at a later date, such transactions are in substance a financing agreement. In such a situation, the resulting cash inflow should not be recognised as revenue.

(iii) Revenue from sales of goods to distributors, dealers or others for resale can generally be recognised if significant risks of ownership have passed. However, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(iv) Commissions on service rendered as agent on insurance business should be recognised as revenue when the service is completed. Insurance agency commissions should be recognised on the effective commencement or renewal dates of the related policies.

15. AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

16. Mr. A will not be considered as a related party of SP Hotels Limited in view of AS 18 which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual". In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

17. (i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.5– ₹ 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741/ 2.486	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments (₹ 6,43,500 x 3)	19,30,500
Add: Unguaranteed residual value	1,33,500
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.5+ ₹ 15,99,741)	(16,99,999.50)
Unearned finance income	3,64,000.50

18. Computation of basic earnings per share

Net profit for the current year / Weighted average number of equity shares outstanding during the year

₹ 37,50,000 / 5,00,000 = ₹ 7.50 per share

Computation of diluted earnings per share $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	₹
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of ₹ 4,00,000)	(1,20,000)
Adjusted net profit for the current year	40,30,000

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

= 5,55,000 shares (5,00,000 + 55,000)

Diluted earnings per share

= 40,30,000/ 5,55,000 = ₹ 7.26 per share

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

19. (a) **Accounting income (loss)** is the net profit or loss for a period, as reported in the statement of profit and loss, before deducting income-tax expense or adding income tax saving.

Taxable income (tax loss) is the amount of the income (loss) for a period, determined in accordance with the tax laws, based upon which income-tax payable (recoverable) is determined.

Taxable expenses is the aggregate of current tax and deferred tax charged or credited to the statement of profit and loss for the period.

(b) **Disclosure in interim financial reports**

Disclosures in an interim financial report in respect of a discontinuing operation should be made in accordance with AS 25, 'Interim Financial Reporting', including:

(a) Any significant activities or events since the end of the most recent annual reporting period relating to a discontinuing operation and

(b) Any significant changes in the amount or timing of cash flows relating to the assets to be disposed or liabilities to be settled.

20. (a) As per AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2022.

(b) **Principles for recognition of provisions:**

As per AS 29, "a provision shall be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision shall be recognised."

Accounting treatment under the given scenarios:

(i) In this case, there is no present obligation arising out of a past event as the goods are scheduled for delivery on 30th April, 2022 and there is no delay as at 31st March, 2022. Hence, there is no present obligation to pay the penalty in the current year. Therefore, no provision can be recognized in the instant case.

(ii) On 31st March, 2022, since it is evident to the lawyer that Chaos Limited may lose the case and also a reliable estimate of the outflow can be made as ₹ 3,00,000, there is a present obligation. Hence, provision should be recognised for ₹ 3,00,000 for the amount which may be required to settle the obligation.

(iii) Under new regulation, an entity is required to upgrade its facilities by 31st March, 2023. However, on 31st March, 2022, i.e. at the end of the reporting period, there is no obligation because there is no obligating event either for the costs of upgrading the facilities or for fines under the regulations. Hence, no provision should be recognised on 31st March, 2022 for upgrading the facilities by 31st March, 2023.