PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY For MAY, 2019 EXAMINATION

A. <u>Applicable for May, 2019 Examination</u>

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

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

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

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

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

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

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

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

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

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

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for May, 2019 examination.

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

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

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

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

	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognize those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.	No liability for proposed dividends should be created now. Such proposed dividends are to be disclosed in the notes.
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be

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

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

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

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

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

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

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

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

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

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

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

Petition by Contributory

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

Petition by Registrar

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

Petition by Company

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

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

A company may be wound up voluntarily [Section 304[1]],:

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

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

Liquidators' Statement of Account

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

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[1] *Applicable until 31 March 2017; with effect from 1 April 2017, Section 59 of the Insolvency and Bankruptcy Code, 2016 is applicable.*

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

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

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

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

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

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

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

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

Payments are made and shown in the following order:

(a) Legal charges;

(b) Liquidator's expenses;

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

(d) Creditors:

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

  (ii) Unsecured creditors;

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

(f) Equity shareholders.

Commencement of Winding Up by Tribunal [Section 357]

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

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

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

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

Statement of Affairs

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

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

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

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

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

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

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

    (i) Preferential creditors,

    (ii) Debentures having a floating charge, and

    (iii) Unsecured creditors.

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

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

Note: Statement of affairs should accompany eight lists:

List A Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes, salaries, wages and otherwise.

List D List of debenture holders secured by a floating charge.

List E Unsecured creditors.

List F List of preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

Deficiency Account

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

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

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

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

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

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

a) **Workmen,** in relation to a company, means the employees of the company, being workmen within the meaning of Section 2 (s) of the Industrial Disputes Act, 1947;
b) **Workmen's dues,** in relation to a company, means the aggregate of the following sums due from the company to its workmen, namely:

(i) All wages or salary including wages payable;

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

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

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

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

(i) All wages or salary including wages payable;

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

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

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

Preferential Creditors

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

Preferential Creditors are as follows:

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

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

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

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

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

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

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

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

The debts enumerated in this section should—

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

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

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

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

Explanations: For the purposes of this section,

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

Effect of Floating Charge [Section 332]

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

B List Contributories

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

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

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

V. Maintenance of Statutory Liquidity Ratio (SLR)

Section 24 and Section 56 of the Banking Regulation Act, 1949 – Maintenance of SLR and holdings of SLR in HTM category

It has been decided to reduce the SLR requirement of banks from 20.0 per cent of their Net Demand and Time Liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017 as announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017. The related notification is DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 4, 2017.

Currently, the banks are permitted to exceed the limit of 25 per cent of the total investments under HTM category, provided the excess comprises of SLR securities and total SLR securities held under HTM category are not more than 20.5 per cent of NDTL. In order to align this ceiling on the SLR holdings under HTM category with the mandatory SLR, it has been decided to reduce the ceiling from 20.5 per cent to 19.5 per cent in a phased manner, i.e. 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, i.e., in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3 (ii) of the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

VI. Maintenance of Cash Reserve Ratio (CRR)

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to *4.00 per cent of their Net Demand and Time Liabilities (NDTL)* with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001/2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Recoupment of the Deficit: Every Insurer shall ensure that the policyholders' fund is fully supported by the policyholders' investments shown in Schedule-SA. Therefore, any deficit/shortfall in policyholders' investments arising out of the loss in the Revenue Account or otherwise shall be recouped by transfer of securities from the shareholders' investments to the policyholders' investments on a half yearly basis. The valuation of such securities shall be in accordance with the valuation norms as specified in the IRDA (Preparation of Financial Statements and Auditors' Report) Regulations, 2002.

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

Annexure

SCHEDULE- 8A

INVESTMENTS-POLICYHOLDERS

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

B. <u>Not applicable for May, 2019 examination</u>

Non-Applicability of Ind AS for May, 2019 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2019 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. A partnership firm was dissolved on 30th June, 2018. Its Balance Sheet on the date of dissolution was as follows:

Capitals:			Cash	21,600
A	1,52,000		Sundry Assets	3,78,400
B	96,000			
C	72,000	3,20,000		
Loan A/c – B		20,000		
Sundry Creditors		60,000		
		4,00,000		4,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 58,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 10,800 but actual amount spent was ₹ 8,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5th July, 2018	50,400
On 30th August, 2018	1,20,000
On 15th September, 2018	1,60,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Conversion of Partnership firms into a company

2. Arun and Varun, sharing profits and losses equally, directed to convert their business into a limited company on 31st December, 2018 when their balance sheet stood as follows:

Liabilities	₹	₹	*Assets*	₹
Sundry creditors		96,000	Sundry debtors	1,20,000
Loan creditors		80,000	Bills receivable	20,000
Bank overdraft		32,000	Stock in trade	72,000

Reserve fund		12,000	Patents	16,000
Capital accounts:			Plant and machinery	32,000
Arun	80,000		Land and building	1,20,000
Varun	80,000	1,60,000		
		3,80,000		3,80,000

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

(b) The loan creditors were agreed to accept 7½% redeemable preference shares in settlement of their claim.

(c) Land and buildings and plant and machinery were to be valued at ₹ 2,00,000 and ₹ 48,000 respectively.

(d) The vendors were to be allotted equity shares of the value of ₹ 2,10,000.

(e) The past working results of the firm showed that they had made profits of ₹ 60,000 in 2016, ₹ 72,000 in 2017 and ₹ 84,000 in 2018 after setting aside ₹ 4,000 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.

Sale of Partnership firm to Company

3. XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2017:

Liabilities	XYZ & Co. ₹	ABC Ltd. ₹		XYZ & Co. ₹	ABC Ltd. ₹
Equity share capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of ₹ 10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Inventories	2,00,000	8,50,000
X	2,00,000		Trade receivables	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Trade payables	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of XYZ & Co. includes ₹ 1,00,000 payable to ABC Ltd. An unrecorded liability of ₹ 25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

(i) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of XYZ & Co.

(ii) Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.

LLP

4. What are circumstances when LLP can be wound up by the Tribunal. Explain in brief.

ESOPs

5. A company has its share capital divided into shares of ₹ 10 each. On 1-1-20X1, it granted 7,500 employees stock options at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 7,200 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

Buy Back of Securities

6. Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	*(₹ in lakhs)*	*Assets*	*(₹ in lakhs)*
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹ 10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7,398		7,398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

(1) Pass necessary journal entries for the buy-back.

(2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

Redemption of Debentures

7. On 1st January, 2008 Raman Ltd. allotted 20,000 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

   (i) On 1st January, 2010 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

   (ii) On 1st January, 2013 the company redeemed at par debentures for ₹ 6,00,000 by draw of a lot.

   (iii) On 1st January, 2014 the company purchased debentures of the face value of ₹ 4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

   (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2018 when Securities Premium Account in the company's ledger showed a balance of ₹ 60,000.

   Pass journal entries for the above mentioned transactions ignoring debenture redemption reserve, debenture - interest and interest on own' debentures.

Underwriting of Shares

8. A joint stock company resolved to issue 10 lakh equity shares of ₹ 10 each at a premium of ₹ 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

   The issue was underwritten by X, Y and Z for a commission @2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

   X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

   Marked applications were as follows:

   X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.

Amalgamation of Companies

9. P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018 Their summarized Balance Sheets as on 31.03.2018 were as follows: (₹in '000)

Particulars	*P Ltd.*	*Q Ltd.*
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) 50 % Debenture are to be converted into Equity Shares of the New Company.

(ii) Investments are non- current in nature.

(iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.

(iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.

(v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.

(vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

Internal Reconstruction of a Company

10. The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	*Note No.*	*Amount (₹ in lakh)*
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
Assets		
Non-Current Assets		
Property, Plant & Equipment		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		₹ in Lakhs
(1)	Share Capital	
	Authorised :	
	200 lakh shares of ₹ 10 each	2,000
	8 lakh, 8% Preference Shares of ₹ 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of ₹ 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

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 ₹ 80 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 ₹ 300 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 ₹ 400 lakh.

(6) All investments sold out for ₹ 250 lakh.

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

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

(9) Company's contractual commitments amounting to ₹ 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

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

(b) Prepare Reconstruction Account; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

Liquidation of Company

11. The following is the summarized Balance Sheet of Shah Ltd. Co. which is in the hands of the liquidator:

Balance Sheet as at 31.3.2017

Liabilities	₹	*Assets*	₹
Share Capital:		Fixed assets	2,00,000
1,000, 6% Preference Shares of ₹ 100 each, fully paid	1,00,000	Inventory	1,20,000
		Book debts	2,40,000
2,000 Equity shares of ₹ 100 each, fully paid	2,00,000	Cash in hand	40,000
		Profit and loss A/c	3,00,000
2,000 Equity shares of ₹ 100 each ₹ 75 paid up	1,50,000		

Loan from bank (on security of stock)	1,00,000		
Trade Payables	3,50,000		
	9,00,000		9,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

	₹
Fixed assets	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

Financial Statements of Insurance Companies

12. From the following balances extracted from the books of REAL 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	28,000	7,000
Claims Paid	1,00,000	80,000
Reserved for unexpired Risk as on 1st April 2016	2,00,000	1,40,000
Premium Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of management	60,000	45,000
Re Insurance Premium –Dr.	25,000	15,000

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 - ₹ 10,000

(b) Marine Insurance - ₹ 15,000

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

(a) Fire Insurance - ₹ 30,000

(b) Marine Insurance - ₹ 20,000

(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 ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of Marine Insurance.

Financial Statements of Banking Companies

13. From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2018:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

		₹ in lakhs	
		Earned	Collected
(i)	Interest on NPA is as follows:		
	Cash Credit	164	80
	Term Loans	90	20
	Overdraft	150	50

(ii)	Classification of Non-performing Advances:		
	Standard		60
	Sub-standard-fully secured		22
	Doubtful assets-fully unsecured		40
	Doubtful assets covered fully by security:		
	Less than 1 year		6
	More than 1 year upto 3 years		3
	More than 3 years		2
	Loss Assets		38

(iii) Provide 35% of the profits towards provision for taxation.

(iv) Transfer 25% of the profit to Statutory Reserves.

Departmental Accounts

14. The following balances were extracted from the books of M/s Division. You are required to prepare Departmental Trading Account and Profit and Loss account for the year ended 31st December, 2018 after adjusting the unrealized department profits if any.

	Deptt. A ₹	*Deptt. B* ₹
Opening Stock	50,000	40,000
Purchases	6,50,000	9,10,000
Sales	10,00,000	15,00,000

General expenses incurred for both the departments were ₹ 1,25,000 and you are also supplied with the following information: (a) Closing stock of Department A ₹ 1,00,000 including goods from Department B for ₹ 20,000 at cost of Department A. (b) Closing stock of Department B ₹ 2,00,000 including goods from Department A for ₹ 30,000 at cost to Department B. (c) Opening stock of Department A and Department B include goods of the value of ₹ 10,000 and ₹ 15,000 taken from Department B and Department A respectively at cost to transferee departments. (d) The rate of gross profit is uniform from year to year.

Branch Accounting

15. M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of ABC & Co.

Bangalore branch furnishes you with its trial balance as on 31st March, 2018 and the additional information given thereafter:

	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1st April, 2017	300	
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	-
Rent, Rates & Taxes	360	-
Sundry Charges	160	-
Computers	240	-
Bank Balance	420	-
New York Office A/c	-	1,620
	3,360	3,360

Additional Information:

(a) Computers were acquired from a remittance of US $ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.

(b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2018.

(c) The rates of exchange may be taken as follows:

- On 01.04.2017 @ ₹ 55 per US $
- On 31.03.2018 @ ₹ 60 per US $
- Average exchange rate for the year @ ₹ 58 per US $
- Conversion in $ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2018 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US $ 29845.35 on 31.3.2018 in New York books and there were no items pending reconciliation.

Framework for Preparation and Presentation of Financial Statements

16. (a) With regard to financial statements name any four

(1) Users

(2) Qualitative characteristics

(3) Elements.

(b) What are fundamental accounting assumptions?

Accounting Standards

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

17. (a) The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹ 2 per equity share (on 2 crore fully paid up equity shares of ₹ 10 each) for the year ended31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

    Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

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

(b) Goods of ₹ 5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2018, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2018.

AS 12 Accounting for Government Grants

18. (a) Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2014- 15 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2017-18 in profit and loss account?

AS 16 Borrowing Costs

(b) Zen Bridge Construction Limited obtained a loan of ₹ 64 crores to be utilized as under:

(i)	Construction of Hill link road in Kedarnath	₹ 50 crores
(ii)	Purchase of Equipment and Machineries	₹ 6 crores
(iii)	Working Capital	₹ 4 crores
(iv)	Purchase of Vehicles	₹ 1crore

(v)	Advances for tools/cranes etc.	₹ 1crore
(vi)	Purchase of Technical Know how	₹ 2 crores
(vii)	Total Interest charged by the Bank for the year ending 31st March, 2018	₹ 1.6 crores

Show the treatment of Interest according to Accounting Standard by Zen Bridge Construction Limited.

AS 19 Leases

19. (a) Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is₹ 50,000. IRR of investment is 10% and present value of annuity factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

AS 20 Earnings Per Share

(b) "While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS.

Also calculate the diluted EPS from the following information:

Net Profit for the current year (After Tax)	₹ 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹ 100 each	1,00,000
(Each Debenture is compulsorily & fully convertible into 10 equity shares)- issued at the mid of the year	
Debenture interest expense for the current year	₹ 5,00,000
Assume applicable Income Tax rate @ 30%	

AS 26 Intangible Assets

20 (a) A Company with a turnover of ₹ 375 crores and an annual advertising budget of ₹ 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 37.5 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct?

AS 29 Provisions, Contingent Liabilities and Contingent Assets

(b) M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

SUGGESTED ANSWERS/HINTS

1. **Statement showing distribution of cash amongst the partners**

	Creditors	*B's loan*	*A*	*B*	*C*
2018	₹	₹	₹	₹	₹
Jun-30					
Balance b/d	60,000	20,000	1,52,000	96,000	72,000
Cash balance less Provision for expenses (₹ 21,600– ₹ 10,800)	10,800	-	-	-	-
Balances unpaid	49,200	20,000	1,52,000	96,000	72,000
Jul-05					
1st Instalment of ₹ 50,400	47,200	3,200	-	-	-
Discount received on full settlement	2,000	16,800	1,52,000	96,000	72,000
Less: Transferred to Realisation A/c	2,000				
Aug-30					
2nd instalment of ₹ 1,20,000 (W.N. 2)		16,800	65,280	9,280	28,640
Balance unpaid			86,720	86,720	43,360
Sep-15					
Amount realised ₹ 1,60,000					
Add: Balance out of the Provision for Expenses A/c 2,800					
1,62,800			65,120	65,120	32,560
Amount unpaid being loss on Realisation in the ratio of 2 : 2 : 1			21,600	21,600	10,800

Working Notes:

1. Highest relative capital basis

		A	B	C
		₹	₹	₹
1.	Present Capitals	1,52,000	96,000	72,000
2.	Profit-sharing ratio	2	2	1
3	Capital per unit of Profit share (1 ÷ 2)	76,000	48,000	72,000
4.	Proportionate capitals taking B, whose capital is the least, as the basis	96,000	96,000	48,000
5.	Excess capital (1-4)	56,000	Nil	24,000
6.	Profit-sharing ratio	2	-	1
7.	Excess capital per unit of Profit share (5 ÷ 6)	28,000		24,000
8.	Proportionate capitals as between A and C taking C capital as the basis	48,000	-	24,000
9.	Excess of A's Capital over C's Excess capital (5-8)	8,000	-	-
10.	Balance of Excess capital (5-9)	48,000		24,000
11.	Distribution sequence:			
	First ₹ 8,000 (2 : 0 : 0)	8,000	-	-
	Next ₹ 72,000 (2 : 0 : 1)	48,000	-	24,000
	Over ₹ 80,000 (2 : 2 : 1)			

2. Distribution of Second instalment

		Creditors	A	B	C
First	₹ 16,800	16,800	-	-	-
Next	₹ 8,000 (2 : 0 : 0)		8,000	-	-
Next	₹ 72,000 (2 : 0 : 1)		48,000	-	24,000
Balance	₹ 23,200 (2 : 2 : 1)		9,280	9,280	4,640
	1,20,000	16,800	65,280	9,280	28,640

2. Books of Arun and Varun

Realisation Account

	₹	₹		₹
To Sundry debtors		1,20,000	By Sundry creditors	96,000

To Bills receivable		20,000	By Loan creditors	80,000
To Stock in trade		72,000	By Bank overdraft	32,000
To Patents		16,000	By Purchasing Company	4,20,000
To Plant and Machinery		32,000	(W.N. 2)	
To Land and Building		1,20,000		
To Capital A/c (Profit)				
Arun	1,24,000			
Varun	1,24,000	2,48,000		
		6,28,000		6,28,000

Partners' Capital Accounts

	Arun	*Varun*		*Arun*	*Varun*
	₹	₹		₹	₹
To Shares in Purchasing Co.	2,10,000	2,10,000	By Balance b/d	80,000	80,000
			By Reserves	6,000	6,000
			By Realization A/c	1,24,000	1,24,000
	2,10,000	2,10,000		2,10,000	2,10,000

Working Notes

1. Goodwill = (60,000 + 72,000 + 84,000 + 12,000*)/3 x 2 Years = 1,52,000

   * Profit transferred to reserve @ ₹4,000 for 3 years.

2. **Purchase Consideration**

	₹	₹
Assets taken over:		
Goodwill (W.N.1)		1,52,000
Land and Buildings		2,00,000
Plant and Machinery		48,000
Sundry Debtors		1,20,000
Bills Receivable		20,000
Stock in trade		72,000
Patents		16,000
		6,28,000
Less: Liabilities taken over:		
Creditors	96,000	
Loan Creditors	80,000	

Bank Overdraft	32,000	2,08,000
Purchase Consideration		4,20,000

3. (i) **In the books of XYZ & Co.**

Realisation Account

	₹		₹
To Plant & Machinery	5,00,000	By Trade payables	3,00,000
To Furniture & Fixture	50,000	By ABC Ltd. (Refer W.N.)	6,00,000
To Inventories	2,00,000	By Partners' Capital Accounts (loss):	
To Trade receivables	2,00,000	X's Capital A/c	20,000
		Y's Capital A/c	20,000
		Z's Capital A/c	10,000
	9,50,000		9,50,000

Partners' Capital Accounts

	X ₹	Y ₹	Z ₹		X ₹	Y ₹	Z ₹
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash A/c	-	80,000	-	By Cash A/c	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	40,000	10,000	By Cash A/c (Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				
To Z	10,000				
	80,000	10,000		80,000	10,000

* It is assumed that cash at bank has been withdrawn to pay ₹ 80,000 to partner Y. However, payment to Y of ₹ 80,000 can also be made by cash ₹ 70,000 & by cheque ₹ 10,000.

(ii) In the Books of ABC Ltd.

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Business Purchase Account	Dr.	6,00,000	
	To XYZ & Co.			6,00,000
	(Being business of XYZ & Co. purchased and payment due)			
2.	Plant and Machinery Account	Dr.	5,00,000	
	Furniture and Fixture Account	Dr.	50,000	
	Inventories Account	Dr.	2,00,000	
	Trade Receivables Account	Dr.	2,00,000	
	To Trade Payables Account			3,00,000
	To Unrecorded Liability Account			25,000
	To Business Purchase Account			6,00,000
	To Capital Reserve Account (Bal. Fig.)			25,000
	(Being take over of all assets and liabilities)			
3.	XYZ & Co.	Dr.	6,00,000	
	To Equity Share Capital Account			5,00,000
	To Securities Premium Account			1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)			
4.	Trade Payables Account	Dr.	1,00,000	
	To Trade Receivables Account			1,00,000
	(Being mutual owings eliminated)			

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.)

as at 31.3.2017

	Note No.	₹
Equity and Liabilities		
Shareholders funds		
Share capital	1	25,00,000
Reserve and Surplus	2	8,25,000
Current liabilities		

Trade Payables (3,00,000 + 13,00,000 – 1,00,000)		15,00,000
Others (Unrecorded Liability)		25,000
Total		48,50,000
Assets		
Non-current assets		
Property, Plant & Equipment		
Tangible assets	3	23,75,000
Current assets		
Inventories (2,00,000 + 8,50,000)		10,50,000
Trade Receivables (2,00,000 + 8,25,000 – 1,00,000)		9,25,000
Cash and cash equivalent	4	5,00,000
Total		48,50,000

Notes to Accounts

		₹
1. *Share Capital*		
2,50,000, Equity shares of ₹ 10 each fully paid up		25,00,000
(out of which 50,000 shares has been issued for consideration other than cash)		
2. *Reserve and Surplus*		
Securities Premium	1,00,000	
Capital Reserve	25,000	
General Reserve	7,00,000	8,25,000
3. *Tangible assets*		
Plant and Machinery (5,00,000 + 16,00,000)	21,00,000	
Furniture and fixture (50,000 + 2,25,000)	2,75,000	23,75,000
4. *Cash and cash equivalent*		
Cash at Bank	4,00,000	
Cash in hand	1,00,000	5,00,000

Working Note:

Computation of purchase consideration:

50,000, Equity shares of ₹ 12 (10+2) each = ₹ 6,00,000

Equity shares distributed among partners:

Partner X	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Y	=	20,000 shares @ ₹ 12	= ₹ 2,40,000
Partner Z	=	10,000 shares @ ₹ 12	= ₹ 1,20,000
			₹ 6,00,000

4. Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

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

5. **In the books of Company**

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-3-X2 to 31-3-X2	Bank A/c (7,200 x 50)	Dr.	3,60,000	
	Employees compensation expenses A/c	Dr.	6,48,000	
	To Equity Share Capital A/c (7,200 x 10)			72,000
	To Securities Premium A/c (7,200 x Rs.130)			9,36,000
	(Being allotment to employees 7,200 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)			
31-3-X2	Profit and Loss account	Dr.	6,48,000	
	To Employees compensation expenses A/c			6,48,000
	(Being transfer of employees compensation expenses)			

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140 – ₹ 50 = ₹ 90 per share = ₹ 90 x 7,200 = ₹ 6,48,000 in total.
2. Securities Premium Account = ₹ 50 – ₹ 10 = ₹ 40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 x 7,200= ₹ 9,36,000 in total.

6. In the books of Alpha Limited

Journal Entries

Date 2017	*Particulars*		*Dr.*	*Cr. (₹ in lakhs)*
April 1	Bank A/c	Dr.	150	
	To Investment A/c			148
	To Profit on sale of investment			2
	(Being investment sold on profit)			
April 5	Equity share capital A/c	Dr.	600	
	Securities premium A/c	Dr.	300	
	To Equity shares buy back A/c			900
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	900	
	To Bank A/c			900
	(Being the payment made on account of buy back of 60 Lakh Equity Shares)			
April 5	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve A/c			600
	(Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)			

Balance Sheet (After buy back)

Particulars	*Note No*	*Amount (₹ in Lakhs)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings - 12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478

Total		6,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment		
(i) Tangible assets	3	4,050
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

				₹ (₹ *in Lakhs)*
1.	**Share Capital**			
	Equity share capital (Fully paid up shares of ₹10 each)			1800
2.	**Reserves and Surplus**			
	General Reserve	530		
	Less: Transfer to CRR	(530)	-	
	Capital Redemption Reserve	400		
	Add: Transfer due to buy-back of shares from P/L	70		
	Transfer due to buy-back of shares from Gen. res.	530	1,000	
	Securities premium	350		
	Less: Adjustment for premium paid on buy back	(300)	50	
	Profit & Loss A/c	340		
	Add: Profit on sale of investment	2		
	Less: Transfer to CRR	(70)	272	1,322
3.	**Tangible assets**			
	Machinery		3,600	
	Furniture		450	4,050

Working Note:

Cash at bank after buy-back

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

7. **Journal**

		(₹) Dr.	(₹) Cr.
2008 Jan 1	Bank Dr.	20,00,000	
	To 9% Debenture Applications & Allotment Account		20,00,000
	(Being application money on 20,000 debentures @ ₹ 100 per debenture received)		
	9% Debentures Applications & Allotment Account Dr.	10,00,000	
	To 9% Debentures Account		20,00,000
	(Being allotment of 20,000 9% Debentures of ₹100 each at par)		
(i)	9% Debenture Account Dr.	2,00,000	
2010 Jan. 1	Loss on Redemption of Debentures Account Dr.	2,000	
	To Bank		2,02,000
	(Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each)		
” ”	Profit & Loss Account/Securities Premium Account Dr.	2,000	
	To Loss on Redemption of Debentures Account		2,000
	(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account)		
(ii) 2013 Jan. 1	9% Debentures Account Dr.	6,00,000	
	To Sundry Debentureholders		6,00,000
	(Being Amount payable to debentureholders on redemption debentures for ₹6,00,000 at par by draw of a lot)		
” ”	Sundry Debentureholders Dr.	6,00,000	
	To Bank		6,00,000
	(Being Payment made to sundry debentureholders for redeeming debentures of ₹6,00,000 at par)		

(iii) 2014 Jan. 1	Own Debentures Dr.	3,95,600	
	To Bank		3,95,600
	(Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600)		
2015 "	9% Debentures Dr.	4,00,000	
	To Own Debentures		3,95,600
	To Profit on Cancellation of Own Debentures Account		4,400
	(Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600)		
" "	Profit on Cancellation of Own Debentures Account Dr.	4,400	
	To Capital Reserve Account		4,400
	(Being transfer of profit on cancellation of own debentures to capital reserve)		
(iv) 2018 Jan.	9% Debentures Account Dr.	8,00,000	
	Premium on Redemption of Debentures Account Dr.	16,000	
	To Sundry Debentureholders		8,16,000
	(Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)		
" "	Sundry Debentureholders Dr.	8,16,000	
	To Bank Account		
	(Being payment to sundry debentureholders)		8,16,000
" "	Securities Premium Account Dr.	16,000	
	To Premium on Redemption of Debentures Account		16,000
	(Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)		

8. Statement showing underwriters' liability for shares other than shares underwritten firm

	X	*Y*	*Z*	*Total*
Gross liability (Issued shares – purchased by promoters, directors etc.)	5,85,000	2,25,000	90,000	9,00,000
(9,00,000 shares in the ratio of 65 : 25 : 10)				
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500

Less: Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

	₹	₹	₹
Additional Liability for additional shares @ ₹11	44,000	–	93,500
Underwriting commission payable on Gross Liability			
(Shares underwritten as Gross liability × ₹11 × 2%)	(1,28,700)	(49,500)	(19,800)
Net Amount payable	(84,700)	(49,500)	-
Net Amount receivable	-	-	73,700

9. **M/s R Ltd.**

Balance Sheet as at 1.4.2018

		Particulars	Notes	₹ in'000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	6,55,980
	b	Reserves and Surplus	2	2,77,990
2		**Non-current liabilities**		
	a	Long-term borrowings	3	80,000
3		**Current liabilities**		
	a	Trade Payables	4	80,000
	b	Short term provision	5	22,000
		Total		11,15,970
		Assets		
1		**Non-current assets**		
	a	Property, Plant & Equipment		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000

2		**Current assets**		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		11,15,970

Notes to accounts

		₹ in'000
1.	**Share Capital**	
	Equity share capital	
	55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
	Preference share capital	
	9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
		6,55,980
2.	**Reserves and Surplus**	
	Securities premium (W.N.2)	2,77,990
	Investment allowance reserve (₹10,000+ ₹4,000)	14,000
	Amalgamation adjustment reserve	(14,000)
		2,77,990
3.	**Long-term borrowings**	
	Secured	
	10% Debentures (50% of ₹1,60,000)	80,000
4.	**Trade Payables** (₹50,000+ ₹30,000)	80,000
5.	**Short term provisions**	
	Provision for tax (₹14,000+ ₹8,000)	22,000
6.	**Tangible assets**	
	Building (₹1,32,000+₹1,05,000)	2,37,000
	Plant and machinery (₹1,76,000+₹1,47,000)	3,23,000
		5,60,000

7.	**Non – current Investments (₹80,000+ ₹50,000)**	1,30,000
8.	**Inventory**	
	Stock (₹ 72,000+ ₹ 80,000)	1,52,000
9.	**Trade receivables**	
	Trade receivables (90% of (₹90,000+ ₹70,000)	1,44,000
10.	**Cash and cash equivalents**	
	Cash and Bank (₹ 80,000+ ₹ 50,000 – ₹ 30)	1,29,970

Working Notes:

1. **Calculation of value of equity shares issued to transferor companies**

		P Ltd.		*Q Ltd.*
		(₹)		*(₹)*
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. **Number of shares issued to equity shareholders, debenture holders and preference shareholders**

	P Ltd.	*Q Ltd.*	*Total*
Equity shares issued@ ₹15 per share (including ₹ 5 premium)			
₹3,97,000/15	26,466 shares[2]		

[2] Cash paid for fraction of shares = ₹ 3,97,000 less ₹ 3,96,990 = ₹10

₹3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
50% of Debentures are converted into equity shares @ ₹ 15 per share			
1,00,000/2 = 50,000/15	3,332 shares[3]		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	₹33,320	₹20,000	₹53,320
Security premium@ ₹5	₹16,660	₹10,000	₹26,660
	₹49,980	₹30,000	₹ 79,980
9% Preference share capital issued	₹60,000	₹40,000	₹1,00,000

10. (a) Journal Entries in the books of Lion Ltd.

	Particulars		*Debit (₹ in lakhs)*	*Credit (₹ in lakhs)*
(i)	8% Preference share capital A/c (₹100 each)	Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)			320
	To Capital Reduction A/c			80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹10 each)	Dr.	1,000	
	To Equity share capital A/c (₹ 2 each)			200
	To Capital Reduction A/c			800
	(Being the equity shares of ₹10 each reduced to ₹2 each)			
(iii)	Capital Reduction A/c	Dr.	32	

[3] Cash paid for fraction of shares = ₹ 50,000 less ₹ 49,980 = ₹20

	To Equity share capital A/c (₹2 each)			32
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of ₹ 2 each)			
(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450x 40%)			180
	To Inventories-in-trade A/c (300x 80%)			240
	To Bank A/c (600 x 5%)			30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
(x)	Capital Reduction A/c		286	
	To Capital reserve A/c			286
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

Dr. **Cr.**

	(₹ in lakhs)		(₹ in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

(c) Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹ 2 each		400
	8 lakhs 8% Preference shares of ₹ 80 each		640
			1,040
	Issued:		
	161 lakhs equity shares of ₹2 each		322
	4 lakhs Preference Shares of ₹80 each		320
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	(300)	
		250	
	Add: Appreciation	150	400
	Plant and Machinery		200
			600

11. Liquidator's Final Statement of Receipts and Payments A/c

	₹	₹		₹
To Cash in hand To Assets realised:		40,000	By Liquidator's remuneration and expenses	5,000
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000
(1,10,000 – 1,00,000) Book debts	10,000 2,30,000	4,08,000	By Equity shareholders @ ₹ 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15*		27,000		
		4,75,000		4,75,000

Working Note:

Return per equity share

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share= $\frac{₹\ 38{,}000}{3{,}800\ (4{,}000-200)} = ₹\ 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

*Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

12. Form B – RA (Prescribed by IRDA)

Real General Insurance Co. Ltd

Revenue Account for the year ended 31st March, 2017

Fire and Marine Insurance Business

	Schedule	*Fire Current Year*	*Marine Current Year*
		₹	₹
Premiums earned (net)	1	4,27,500	1,40,000

Profit / (Loss) on sale / redemption of investments		—	—
Others (to be specified)			
Interest, Dividends and Rent – Gross		—	—
Total (A)		4,27,500	1,40,000
Claims incurred (net)	2	82,000	88,000
Commission	3	40,000	20,000
Operating expenses related to Insurance business	4	70,000	50,000
Total (B)		1,92,000	1,58,000
Profit from Fire / Marine Insurance business (A-B)		2,35,500	(18,000)

Schedules forming part of Revenue Account

	Fire	*Marine*
	₹	₹
Schedule -1		
Premium earned (net)		
Premium received during the year	4,50,000	3,30,000
Add: Outstanding on 31st March 2017	30,000	20,000
	4,80,000	3,50,000
Less: Reinsurance premiums	(25,000)	(15,000)
	4,55,000	3,35,000
Less: Adjustment for change in provision for unexpired risk	(27,500)	(1,95,000)
	4,27,500	1,40,000
Schedule – 2		
Claims incurred (net)		
Claims paid during the year	1,00,000	80,000
Add: Outstanding on 31st March,2017	10,000	15,000
	1,10,000	95,000
Less: Outstanding on 1st April,2016	(28,000)	(7,000)
	82,000	88,000

Schedule – 3		
Commission paid	40,000	20,000
Schedule – 4		
Operating expenses		
Expenses of Management		
Expenses paid during the year	60,000	45,000
Add: Outstanding on 31st March,2017	10,000	5,000
	70,000	50,000

Working note for changes in unexpired Risk Reserve

Reserve for unexpired Risk (Fire Insurance @50%)	
Opening Reserve (1)	₹ 2,00,000
Closing Reserve (₹ 4,55,000 X 50/100) (2)	₹ 2,27,500
Additional Transfer to Reserve (2 – 1)	₹ 27,500

Reserve for unexpired Risk (Marine Insurance @100%)	
Opening Reserve (1)	₹1,40,000
Closing Reserve (₹ 3,35,000 X 100/100) (2)	₹3,35,000
Additional Transfer to Reserve (2 – 1)	₹1,95,000

13. **Wealth Bank Limited**

Profit and Loss Account

For the year ended 31st March, 2018

₹ in lakhs

	Particulars	*Schedule*	*Year ended 31-3-2018*
I	Income		
	Interest earned	13	766
	Other income	14	50
			816
II	Expenditure		
	Interest expended	15	54
	Operating expenses	16	468

	Provisions and Contingencies (Refer W.N.)		158.96
			680.96
III	Profit/Loss		
	Net Profit/(Loss) for the year		135.04
	Net Profit/(Loss) brought forward		Nil
			135.04
IV	Appropriations:		
	Transfer to Statutory reserve (25% of the profits)		33.76
	Balance carried to the balance sheet		101.28
	Total		135.04

Schedule 13 - Interest Earned

			Year ended 31-3-2018 (₹ *in lakhs*)
I	Interest/discount on advances/bills		
	Interest on cash credit (364-84)	280	
	Interest on overdraft (150-100)	50	
	Interest on term loans (308-70)	238	568
II	Income on investments		168
III	Interest on Balance with RBI		30
			766

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

Schedule 14 - Other Income

			Year ended 31-3-2018 (₹ *in lakhs*)
I	Commission, Exchange and Brokerage:		
	Commission on remittances and transfer	15	
	Commission on letter of credit	24	
	Commission on Government business	16	55
II	Profit on sale of Land and Building		5
III	Loss on Exchange Transactions		(10)
			50

Schedule 15 - Interest Expended

			Year ended 31-3-2018 (₹ in lakhs)
I	Interest on Deposits		
	Fixed deposits	25	
	Recurring deposits	17	
	Saving bank deposits	12	54

Schedule 16 - Operating Expenses

			Year Ended 31-3-2018 (₹ in lakhs)
I	Payment to and provision for employees		
	Salaries, allowances and bonus	248	
	Provident Fund Contribution	56	304
II	Printing and Stationery		28
III	Advertisement and publicity		36
IV	Directors' fees, allowances and expenses		50
V	Auditors' fees and expenses		24
VI	Postage, telegrams, telephones etc.		16
VII	Repairs and maintenance		10
			468

Working Note:

Provisions and contingencies			(*₹ in lakhs*)
Provision for Advances:			
Standard	60 × 0.40%		0.24
Sub-standard	22 × 15%		3.3
Doubtful not covered by security	40× 100%		40
Doubtful covered by security:			
Less than 1 year	6 x 25%	1.5	4.7
More than 1 year but less than 3 years	3 x 40%	1.2	
More than 3 years	2 x 100%	2.0	
Loss Assets	(38 × 100%)		38
			86.24

Provision for tax	35% of (Total Income – Total Expenditure) 35% of [816-(54+468+86.24)] 35% of 207.76		72.72
			158.96

14. Departmental Trading and Loss Account of M/s Division

For the year ended 31st December, 2018

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	₹	₹		₹	₹
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account

	₹		₹
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (₹ 20,000 - ₹ 10,000) (W.N.1)	5,000	Deptt. B	6,75,000
Stock in Deptt. B			
40% of (₹ 30,000 - ₹ 15,000) (W.N.2)	6,000		
To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%

2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

15. **M/s ABC & Co.**

Bangalore Branch Trial Balance in (US $)

as on 31st March, 2018

	Conversion rate per US $ (₹)	*Dr. US $*	*Cr. US $*
Stock on 1.4.17	55	5,454.55	–
Purchases and sales	58	13,793.10	20,689.66
Sundry debtors and creditors	60	6,666.67	5,000.00
Bills of exchange	60	2,000.00	4,000.00
Wages and salaries	58	9,655.17	–
Rent, rates and taxes	58	6,206.90	–
Sundry charges	58	2,758.62	–
Computers	–	6,000.00	–
Bank balance	60	7,000.00	–
New York office A/c	–	–	29,845.35
		59,535.01	59,535.01

Trading and Profit & Loss Account

for the year ended 31st March, 2018

	US $		*US $*
To Opening Stock	5,454.55	By Sales	20,689.66
To Purchases	13,793.10	By Closing stock (₹ 4,20,000/60)	7,000.00
To Wages and salaries	9,655.17	By Gross Loss c/d	1,213.16
	28,902.82		28,902.82
To Gross Loss b/d	1,213.16	By Net Loss	13,778.68
To Rent, rates and taxes	6,206.90		
To Sundry charges	2,758.62		
To Depreciation on computers (US $ 6,000 × 0.6)	3,600.00		
	13,778.68		13,778.68

Balance Sheet of Bangalore Branch
as on 31st March, 2018

Liabilities		*US $*	*Assets*	*US $*	*US $*
New York Office A/c	29,845.35		Computers	6,000.00	
Less: Net Loss	(13,778.68)	16,066.67	*Less:* Depreciation	(3,600.00)	2,400.00
Sundry creditors		5,000.00	Closing stock		7,000.00
Bills payable		4,000.00	Sundry debtors		6,666.67
			Bills receivable Bank balance		2,000.00 7,000.00
		25,066.67			25,066.67

16. (a) (1) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(2) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(3) Elements of Financial Statements:

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

(b) Fundamental Accounting Assumptions:

Accrual, Going Concern and Consistency

17. (a) As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹ 4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members / shareholders.

(b) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

18. (a) As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(b) According to AS 16 'Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use. As per the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of that asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred. Capitalization of borrowing costs is also not suspended when a temporary delay is a necessary part of the process of getting an asset ready for its intended use or sale.

The treatment of interest by Zen Bridge Construction Ltd. can be shown as:

	Qualifying Asset	*Interest to be capitalized ₹ in crores*	*Interest to be charged to Profit & Loss A/c ₹ in crores*	
Construction of hill road*	Yes	1.25		1.6/64 x 50
Purchase of equipment and machineries	No		0.15	1.6/64 x 6
Working capital	No		0.10	1.6/64 x 4
Purchase of vehicles	No		0.025	1.6/64 x 1
Advance for tools, cranes etc.	No		0.025	1.6/64 x 1
Purchase of technical know-how	No		0.05	1.6/64 x 2
Total		1.25	0.35	

***Note:** It is assumed that construction of hill road will normally take more than a year (substantial period of time), hence considered as qualifying asset.

19. (a) Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

= ₹ 50,000 x 0.7513

= ₹ 37,565

Present value of lease payments = ₹ 5,00,000 – ₹ 37,565

= ₹ 4,62,435

The percentage of present value of lease payments to fair value of the equipment is

(₹ 4,62,435/ ₹ 5,00,000) x 100 = 92.487%.

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹ 4,62,435/ 2.4868 =₹ 1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value

= (₹ 1,85,956 × 3) + ₹ 50,000

= ₹ 5,57,868 + ₹ 50,000 = ₹ 6,07,868

Unearned finance income = Gross investment - Present value of minimum lease payments and unguaranteed residual value

= ₹ 6,07,868 – ₹ 5,00,000 = ₹ 1,07,868

(b) As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for calculation of diluted earnings per share. Hence, "in calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period."

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

Adjusted net profit for the current year

	₹
Net profit for the current year (after tax)	1,00,00,000
Add: Interest expense for the current year	5,00,000

Less: Tax relating to interest expense (30% of ₹5,00,000)	(1,50,000)
Adjusted net profit for the current year	1,03,50,000

Weighted average number of equity shares

Number of equity shares resulting from conversion of debentures

$= \frac{1,00,000 \times 100}{10}$ = 10,00,000 Equity shares

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

= [(10,00,000 x 12) + (10,00,000 x 6)]/12 = 15,00,000 equity shares

Diluted earnings per share = ₹ 1,03,50,000 / 15,00,000 shares = ₹ 6.90 per share

20. (a) According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of ₹ 3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹ 37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹ 3 crores to the Profit and Loss account of the year is correct.

(b) As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

(a) an enterprise has a present obligation 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 should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹ 200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."