Downloaded From www.scanneradda.com

PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2020 EXAMINATION

A. Applicable for November, 2020 Examination

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

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

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

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

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

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

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

Statutory Liquidity Ratio (SLR)

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

(i) 19.25 per cent from January 5, 2019

(ii) 19.00 per cent from April 13, 2019

(iii) 18.75 per cent from July 6, 2019

(iv) 18.50 per cent from October 12, 2019

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(v) 18.25 per cent from January 4, 2020

(vi) 18.00 per cent from April 11, 2020

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

Cash Reserve Ratio (CRR)

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

** Earlier it was 4%.*

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

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

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

Accounting treatment

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

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

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

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

V. Merging three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called Investment and Credit Company (NBFC-ICC)

As per circular RBI/2018-19/130 DNBR (PD) CC.No.097/03.10.001/2018-19 dated February 22, 2019, in order to provide NBFCs with greater operational flexibility, it has been decided that harmonisation of different categories of NBFCs into fewer ones shall be carried out based on the principle of regulation by activity rather than regulation by entity. Accordingly, it has been decided to merge the three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC). Investment and Credit Company (NBFC-ICC) means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the RBI in any of its Master Directions. (Circular DBR.BP.BC.No.25/21.06.001/2018-19 dated 22 February 2019)

Differential regulations relating to bank's exposure to the three categories of NBFCs viz., AFCs, LCs and ICs stand harmonized vide Bank's circular DBR.BP.BC.No.25/21.06.001/2018-19 dated February 22, 2019. Further, a deposit taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund. All related Master Directions (Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, Standalone Primary Dealers (Reserve Bank) Directions, 2016 and Residuary Non-Banking Companies (Reserve Bank) Directions, 2016) have also been updated accordingly.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

B. <u>Not applicable for November, 2020 examination</u>

Non-Applicability of Ind AS for November, 2020 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2020 Examination.

Change in in the curriculum of Advanced Accounting at Intermediate level w.e.f. May* 2020 Examination

<u>Accounting Standards/topics newly included in the curriculum</u>

- Application of Accounting Standards: AS 4; AS 5; AS 17 and AS 22
- Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

<u>Exclusion of topics from the curriculum</u>

- Application of Guidance Notes issued by the ICAI on specific accounting aspects
- Underwriting of Shares and Debentures
- Valuation of Goodwill
- Financial Reporting of Insurance Companies and Mutual Funds and regulatory requirements thereof.

* ***Now, November, 2020*** *examination.*

NOTE: July 2019 Edition of Study Material is applicable for November, 2020 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. Amit, Sumit And Kumar are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	Amount	Assets	Amount
Capital Accounts:		Land & Building	1,35,000
Amit	55,200	Plant & Machinery	45,000
Sumit	55,200	Furniture	25,500
General Reserve	61,500	Investments	15,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Kumar's Loan A/c	15,000	Book Debts	60,000	
Loan from D	120,000	Less: Prov. for bad debts	(6,000)	54,000
Trade Creditors	30,000	Stock		36,000
Bills Payable	12,000	Bank		13,500
Outstanding Salary	7,500	Capital Withdrawn:		
		Kumar		32,400
Total	3,56,400	Total		3,56,400

The following information is given to you:

(i) Realization expenses amounted to ₹ 18,000 out of which ₹ 3,000 was borne by Amit.

(ii) A creditor agreed to takeover furniture of book value ₹ 12,000 at ₹ 10,800. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	-	Remaining taken over by Kumar at 90% of book value
Stock	-	Realized 120% of book value
Book Debts	-	₹ 12,000 of debts proved bad, remaining were fully realized
Land & Building	-	Realised ₹ 1,65,000
Investments	-	Taken over by Amit at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 7,500 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 2020, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form in the books of Partnership firm.

Limited Liability Partnerships

2. (a) Explain the provisions related with liability of Limited Liability Partnership (LLP) and its partners as per LLP Act, 2008.

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

Accounting for ESOPs

3. Kaushal Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1.1.2020 it granted 5,000 employee stock options at ₹ 30 per share, when the market price was ₹ 50 per share. The options were to be exercised till the month of March, 2020. The employees exercised their options for 3,600 shares only and the remaining options lapsed. Show Journal entries (with narration) as would appear in the books of the company for the

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

month of March, 2020 relating to ESOPs as the company closes its books on 31st March every year.

Buy Back of Securities

4. Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2020:

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

Equity Shares with Differential Rights

5. (a) What do you mean by equity shares with differential rights. Explain in brief. Can preference shares be also issued with differential rights?

(b) E, F, G and H hold Equity Capital in Alpha Co. in the proportion of 30:30:20:20. S, T,U and V hold preference share capital in the proportion of 40:30:10:20. If the paid up capital of the company is ₹ 120 Lakh and Preference share capital is ₹ 60 Lakh, You are required to calculate their voting rights in case of resolution of winding up of the company.

Amalgamation of Companies

6. X Ltd. and Y Ltd. give the following information of assets, equity and liabilities as on 31st March, 2018:

	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Trade Payables	3,90,000	2,40,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17 : ₹ 90,000; 2015-16 : ₹ 78,000 and 2014-15: ₹ 72,000). The profits of 2014 -15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to:

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2018.

Internal Reconstruction of a Company

7. The following information pertains to Z Limited as on 31st March, 2019:

	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.

(ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.

(vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid ₹ 15,000.

(ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to pass journal entries for all the above-mentioned transactions including amounts of Goodwill, Patents, Loss in Profit and Loss account to be written off. Also prepare Bank Account and Reconstruction A/c.

Liquidation of Company

8. M. Ltd. resolved on 31st December 2019 that the company be wound up voluntarily. The following was the trial balance extracted from its books as on that date:

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

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

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.

Banking Companies

9. (a) State with reason whether the following cash credit accounts are NPA or not:

	Case-1	Case-2
Sanctioned limit	60,00,000	45,00,000
Drawing power	56,00,000	42,00,000
Amount outstanding continuously 01-01-19 to 31-03-19	48,00,000	30,00,000
Total interest debited for the above period	3,84,000	2,40,000
Total credits for the above period	Nil	3,20,000

(b) The following is an extract from the trial balance of Novel Bank Limited as on 31st March 2019:

Rebate on bills discounted as on 1st April 2018 ₹ 78,566 (Cr. bal)

Discount Received ₹ 1,60,572 (Cr. bal)

An analysis of bills discounted is as follows:

Amount ₹	Due Date
2,90,000	01 June 2019
8,75,000	08 June 2019
5,65,000	21 June 2019
8,12,000	01 July 2019
6,50,000	05 July 2019

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Find out the amount of discount to be credited to Profit and Loss Account for the year ending on 31st March, 2019 and pass the necessary journal entries. The rate of discount shall be taken at 10% per annum.

NBFCs

10. (a) Write short note on Earning value (Equity share) as per NBFC Prudential Norms (RBI) directions.

(b) While closing its books of account on 31st March, 2019 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Sub-standard assets	2,680
Secured portions of doubtful debts:	
– Up to one year	640
– one year to three years	180
– more than three years	60
Unsecured portions of doubtful debts	194
Loss assets	96

You are required to calculate the amount of provision, which must be made against the above advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions 2016.

Consolidated Financial Statements

11. (a) A Ltd holds 75% of the equity capital and voting power in B Ltd. A Ltd purchases inventories costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd at the financial year end i.e. 31 March 2019. Suggest the accounting treatment for this transaction in the consolidated financial statements of A Ltd giving reference of the relevant accounting standard.

(b) From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2019		31-12-2019	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

AS 4 Contingencies and Events occurring after the Balance Sheet Date

12. (a) A fire, on 2nd April, 2020, completely destroyed a manufacturing plant of Omega Ltd. whose financial year ended on 31st March, 2020, the financial statements were approved by their approving authority on 15th June, 2020. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company. How will you disclose it in the financial statements of Omega Ltd. for the year ended 31st March, 2020.

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

(b) The Accountant of Virush Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2020. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;

(i) Till the previous year the machinery was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

AS 7 Construction Contracts

13. Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	₹ 4 crore
Further cost estimated to complete the contract	₹ 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%.

You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

AS 9 Revenue Recognition

14. (a) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2019:

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(i) On 15th January, 2019 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2019.

(ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2019 but at the request of Shine Boutique, these were delivered on 15th April, 2019.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

AS 14 Accounting For Amalgamations

(b) Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2020. The terms and conditions of takeover were as follows:

(i) Som Ltd. issued 56,000 equity shares of ₹100 each at a premium of ₹10 per share to the equity shareholders of Dove Ltd.

(ii) Cash payment of ₹ 1,00,000 was made to equity shareholders of Dove Ltd.

(iii) 20,000 fully paid preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate the amount of purchase consideration as per the provisions of AS 14

AS 17 Segment Reporting

15. (a) A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost. You are required to examine whether the policy adopted by the company for pricing inter-segment transfers at reduced prices is correct or not in line with the provisions of AS 17?

AS 18 Related Party Transactions

(b) On the basis of provisions of AS 18 'Related Party Disclosures':

(i) Identify the related parties in the following cases:

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% shares of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18. You are required to comment on this.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

AS 19 Leases

16. (a) Classify the following into either operating or finance lease:

    (i) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

    (ii) Economic life of the asset is 7 years, lease term is 6.5 years, but asset is not acquired at the end of the lease term;

    (iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

    (b) Viral Ltd. sold machinery having WDV of ₹ 40 lakhs to Saral Ltd. for ₹ 50 lakhs and the same machinery was leased back by Saral Ltd. to Viral Ltd. The lease back is in nature of operating lease. You are required to explain the treatment in the given cases –

    (i) Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.

    (ii) Fair value is ₹ 40 lakhs and sale price is ₹ 50 lakhs.

    (iii) Fair value is ₹ 46 lakhs and sale price is ₹ 50 lakhs

AS 20 Earnings Per Share

17. A-One Limited supplied the following information. You are required to compute the basic earnings per share as per AS 20 'Earnings per Share':

Net profit attributable to equity shareholders	Year 2017-18: ₹ 1,00,00,000
	Year 2018-19 : ₹ 1,50,00,000

Number of shares outstanding prior to

Right Issue	50,00,000 shares
Right Issue	One new share for each four outstanding shares i.e., 12,50,000 shares
	Right Issue Price - ₹ 96
	Last date of exercising rights - 30-06-2018
Fair value of one equity share immediately prior to exercise of rights on 30-06-2018	₹ 101

AS 22 Accounting for Taxes on Income

18. (a) Write short note on Timing differences and Permanent differences as per AS 22.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(b) Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	6,00,000
Depreciation as per income tax records	10,00,000
Unamortized preliminary expenses as per tax record	60,000

There is adequate evidence of future profit sufficiency. You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 30%.

AS 24 Discontinuing Operations

19. (a) What do you understand by Discontinuing Operations? What are the disclosure and presentation requirements of AS 24 for discontinuing operations? Explain in brief.

AS 26 Intangible Assets

(b) X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya"'. X Ltd. incurred additional legal fees to stop infringement on both trademarks. Both trademarks have a remaining legal life of 10 years. How should X Ltd. account for these legal costs incurred relating to the two trademarks?

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. (a) How will you distinguish contingent assets with Contingent Liabilities. Explain in brief.

(b) Alpha Ltd. has entered into a sale contract of ₹ 7 crores with Gamma Ltd. during 2018-19 financial year. The profit on this transaction is ₹ 1 crore. The delivery of goods to take place during the first month of 2019-20 financial year. In case of failure of Alpha Ltd. to deliver within the schedule, a compensation of ₹2 crores is to be paid to Gamma Ltd. Alpha Ltd. planned to manufacture the goods during the last month of 2018-19 financial year. As on balance sheet date (31.3.2019), the goods were not manufactured and it was unlikely that Alpha Ltd. will be in a position to meet the contractual obligation. You are required to advise Alpha Ltd. on requirement of provision for contingency in the financial statements for the year ended 31st March, 2019, in line with provisions of AS 29?

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

SUGGESTED ANSWERS/HINTS

1. **Realization Account**

To	Land and Building		135,000	By	Provision for bad debts		6,000
To	Plant and Machinery		45,000	By	Loan from D		120,000
To	Furniture		25,500	By	Trade creditors		30,000
To	Investments		15,000	By	Bills payable		12,000
To	Book debts		60,000	By	Outstanding salary		7,500
To	Stock		36,000	By	Kumar - Furniture taken over (13,500 x .9)		12,150
To	Bank (Realization expenses)		15,000	By	Bank A/c		
					Stock Realized	43,200	
To	Amit– Realization expenses		3,000		Land & Building	1,65,000	
					Debtors	48,000	2,56,200
To	Bank A/c -						
	Bill payable		11,940	By	Amit (Investment taken over)		12,750
	D's Loan		7,500				
	D's Loan		54,000				
	Creditors		18,000				
	Salary		7,500				
To	Profit trs/f to partners' capital Accounts						
	Amit	9,264					
	Sumit	9,264					
	Kumar	4,632	23,160				
			4,56,600				4,56,600

Bank Account

		₹			₹
To	Balance b/d	13,500	By	Realization A/c	1,13,940

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

				(payment of liabilities: 11,940+ 7,500 + 54,000 + 15,000 + 18,000 + 7,500)	
To	Realization A/c (assets realized)	2,56,200	By	Amit	79,314
To	Kumar	12,618	By	Sumit	89,064
		2,82,318			2,82,318

Partners' Capital Accounts

		Amit	Sumit	Kumar			Amit	Sumit	Kumar
		₹	₹	₹			₹	₹	₹
To	Balance b/d			32,400	By	Balance b/d	55,200	55,200	
					By	Kumar's Loan			15,000
To	Realization A/c (Investment taken over)	12,750			By	General Reserve	24,600	24,600	12,300
To	Realization A/c (Furniture taken over)			12,150	By	Realisation A/c (expense)	3,000		
To	Bank A/c	79,314	89,064		By	Realization A/c (profit)	9,264	9,264	4,632
					By	Bank			12,618
		92,064	89,064	44,550			92,064	89,064	44,550

Working Notes:

1. **Payment for Bills Payable**

Particulars	Amount (₹)
Bills Payable as per Balance Sheet	12,000
Less: Discount for early payment {12,000 x 6% x (1/12)}	60
Amount Paid in Cash	11,940

2. **Payment to D's Loan**

Particulars	Amount (₹)
D's Loan as per Balance Sheet	120,000.00
50% of Loan adjusted as below:	
Plant & Machinery accepted at Book Value (₹ 45,000) and ₹ 7,500 in cash.	7,500

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Balance 50% of Loan adjusted as below: In cash after allowing discount of 10% i.e. ₹ 60,000 – ₹ 6,000 = ₹ 54,000.	54,000

3. Payment to Trade Creditors

Particulars	Amount (₹)
Trade Creditors as per Balance Sheet	30,000
Less: Furniture of Book Value ₹ 12,000 accepted at value ₹ 10,800	10,800
	19,200
Less: Discount @ 6.25%	1,200
Amount paid in Cash	18,000

4. Furniture taken over by Kumar

Particulars	Amount
Furniture as per Balance Sheet	25,500
Less: Furniture of Book Value ₹ 12000 accepted by trade creditors	12,000
	13,500
Less: 10% of Book Value	1,350
Value of Furniture taken over by Kumar	12,150

2. (a) Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(b) 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;

3. Journal Entries in the books of Kaushal Ltd.

			₹	₹
1.3.2020	Bank A/c	Dr.	1,08,000	
to	Employee compensation expense A/c	Dr.	72,000	
31.3.2020	To Equity share capital A/c			36,000
	To Securities premium A/c			1,44,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.2020	Profit and Loss A/c	Dr.	72,000	
	To Employee compensation expenses A/c			72,000
	(Being transfer of employee compensation expenses transfer to Profit and Loss Account)			

Working Note:

Market Price = ₹ 50 per share and stock option price = ₹ 30, Hence, the difference ₹ 50 – ₹ 30 = ₹ 20 per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 3,600 shares.

4. Debt Equity Ratio Test

	Particulars	₹
a)	Loan funds	42,00,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹ in crores)	21,00,000
(c)	Present equity shareholders fund (₹ in crores)	72,80,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(d)	Future equity shareholder fund (₹ in crores) (See Note 2)	59,85,000 (72,80,000-12,95,000)
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	38,85,000 (by simultaneous equation)
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	1,29,500 (by simultaneous equation)

Working Note:

1. Shareholders' funds

Particulars	₹
Paid up capital	30,00,000
Free reserves (32,50,000 +6,00,000+4,30,000)	42,80,000
	72,80,000

2. As per section 68 of the Companies Act, 2013, amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

Suppose amount equivalent to nominal value of bought back shares transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

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

$(72,80,000 - x) - 21,00,000 = y$ (1)

Since 51,80,000 – x = y

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

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

$= \left(\frac{y}{30} \times 10\right) = x$

$3x = y$ (2)

x = ₹ 12,95,000 crores and y = ₹ 38,85,000 crores

5. (a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. No; the preference shares cannot be issued with differential rights.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(b) E, F, G and H hold Equity capital is held by in the proportion of 30:30:20:20 and S,T,U and V hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is ₹ 120 Lakhs and Preference share capital is ₹ 60 Lakhs & (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

E = 2/3X30/100 = 3/15

F = 2/3X30/100 = 3/15

G = 2/3X20/100 = 2/15

H = 2/3X20/100 = 2/15

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

T = 1/3X30/100 = 1/10

U = 1/3X10/100 = 1/30

V = 1/3X20/100 = 1/15

6. **In the Books of Y Ltd.**
Realisation Account

		₹		₹
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase Consideration)	15,90,000
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		18,90,000		18,90,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

In the Books of X Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000
(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c			60,000
(Being Purchase Consideration satisfied as above)			

Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000
2		Non-current liabilities		

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

	A	Long-term provisions	3	2,10,000
3		Current liabilities		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		Non-current assets		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		Current assets		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables	
	(3,90,000 + 2,40,000 - 20,000*)	6,10,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

	* Mutual Owings eliminated.	
5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000		
equity Shares of X Ltd. at 5% Premium		12,60,000
Total		15,90,000

7. **Journal Entries in the Books of Z Ltd.**

			Dr.	Cr.
			₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (₹ 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (₹ 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (₹ 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures Outstanding A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

	(Being ₹ 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables		60,000	
	Interest on debentures outstanding A/c		64,000	
	Bank A/c		60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000		
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share Capital A/c	25,00,000
To Bank (reconstruction expenses)	15,000		
To Goodwill	11,00,000	By 9% Pref. Share Capital A/c	10,00,000
To Patent	5,00,000		
To P & L A/c	14,60,000	By Mr. Y (Settlement)	5,78,000
		By Mr. Z (Settlement)	3,82,000
To P & M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

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

	₹	₹		₹
To Cash in hand		40,000	By Liquidator's remuneration and expenses	5,000
To Assets realised:				
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory (1,10,000 – 1,00,000)	10,000		By Preference shareholders	1,00,000
Book debts	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

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

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.

9. (a)

	Case 1	**Case 2**
	₹s	R₹s
Sanctioned limit	60,00,000	45,00,000
Drawing power	56,00,000	42,00,000
Amount outstanding continuously from 1.01.2019 to 31.03.2019	48,00,000	30,00,000
Total interest debited	3,84,000	2,40,000
Total credits	-	320,000
Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days.	No	Yes
	NPA	NOT NPA

(b) The amount of rebate on bills discounted as on 31st March, 2019 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹ 2,90,000 for 62 days @ 10%	4,926
Discount on ₹ 8,75,000 for 69 days @ 10%	16,541
Discount on ₹ 5,65,000 for 82 days @ 10%	12,693
Discount on ₹ 8,12,000 for 92 days @ 10%	20,467
Discount on ₹ 6,50,000 for 96 days @ 10%	17,096
Total	71,723

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 1.4. 2018	78,566
Add: Discount received during the year	1,60,572
	2,39,138

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

Less: Rebate on bills discounted as on 31.03. 2019 (as above)	(71,723)
	1,67,415

Journal Entries

	₹	₹
Rebate on bills discounted A/c Dr.	78,566	
To Discount on bills A/c		78,566
(Transfer of opening unexpired discount on 31.03. 2018)		
Discount on bills A/c Dr.	71,723	
To Rebate on bills discounted		71,723
(Unexpired discount on 31.03. 2019 taken into account)		
Discount on Bills A/c Dr.	1,67,415	
To P & L A/c		1,67,415
(Discount earned in the year, transferred to P&L A/c)		

10. (a) Earning value means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalized at the following rate:

- in case of predominantly manufacturing company, eight per cent;
- in case of predominantly trading company, ten per cent; and
- in case of any other company, including non-banking financial company, twelve per cent;

Note: If an investee company is a loss making company the earning value will be taken at zero.

(b) Calculation of provision required on advances as on 31st March, 2019:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts			
–up to one year	640	20	128.00
–one year to three years	180	30	54.00
–more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			770.00

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

11. **(a)** As per para provisions of AS 21, Intragroup balances and intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealized losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. One also needs to see whether the intragroup transaction is "upstream" or "down-stream". Upstream transaction is a transaction in which the subsidiary company sells goods to holding company. While in the downstream transaction, holding company is the seller and subsidiary company is the buyer.

In the case of upstream transaction, since the goods are sold by the subsidiary to holding company; profit is made by the subsidiary company, which is ultimately shared by the holding company and the minority shareholders. In such a transaction, if some goods remain unsold at the balance sheet date, the unrealized profit on such goods should be eliminated from minority interest as well as from consolidated profit on the basis of their share-holding besides deducting the same from unsold inventory.

But in the case of downstream transaction, the whole profit is earned by the holding company, therefore, whole unrealized profit should be adjusted from unsold inventory and consolidated profit and loss account only irrespective of the percentage of the shares held by the parent.

The case given in the question is the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 2019, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 2019, by reducing the value of closing inventories by ₹ 50 lacs as of 31 March 2019. In the consolidated balance sheet as of 31 March 2019, A Ltd's share of profit from B Ltd will be reduced by ₹ 37.50 lacs (being 75% of ₹ 50 lacs) and the minority's share of the profits of B Ltd would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs).

(b) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2019

B = Profit & loss account balance on 1.1.2019

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

C = Share capital on 31.12.2019

D = Profit & loss account balance on 31.12.2019

	Minority % Shares Owned [E]	Minority interest as at the date of acquisition [E] x [A + B] ₹	Minority interest as at the date of consolidation [E] X [C + D] ₹
Case A [100-90]	10 %	22,500	23,500
Case B [100-75]	25 %	50,000	40,000
Case C [100-70]	30 %	18,000	18,000
Case D [100-95]	5%	4,750	5,750
Case E [100-100]	NIL	NIL	NIL

12. (a) The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.

(b) (i) Change in useful life of machinery from 5 years to 3 years is a change in estimate and is not a change in accounting policy.

(ii) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.

13.

	₹ in crore
Cost of construction of bridge incurred upto 31.3.2019	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$$= (4/10)\times 100 = 40\%$$

Revenue and Profit to be recognized for the year ended 31st March, 2019 as per AS 7:

Proportion of total contract value recognized as revenue

= Contract price x percentage of completion

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

= ₹ 12.60 crore x 40% = ₹ 5.04 crore

Profit for the year ended 31st March, 2019 = ₹ 5.04 crore – ₹ 4 crore = 1.04 crore.

14. (a) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of ₹ 4,00,000) for the year ended on 31.3.19. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2019.

(b) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration:

		₹
(a)	Preference Shares:	
	20,000 Preference shares in Som Ltd. @ ₹ 70 per share	14,00,000
(b)	Cash	1,00,000
(c)	Equity shares: 56,000 equity shares in Som Ltd. @ ₹ 110 per share	61,60,000
		76,60,000

15. (a) AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

(b) (i) X Ltd., Y Ltd. & W Ltd. are related to each other. Z Ltd. & W Ltd. are related to each other by virtue of associate relationship. However, neither X Ltd. nor Y Ltd. is related to Z Ltd. and vice versa since neither control nor significant influence exists between them.

(ii) Himalaya Ltd. and Aravalli Ltd are related parties since key management personnel of Himalaya Ltd. ie. its managing director holds 80% in Aravalli Ltd. and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Himalaya Ltd that these sales require no disclosure under related party Transactions, is wrong.

16. (a) (i) The lease is a finance lease if X = Y, or if X substantially equals Y otherwise operating.

(ii) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.

(iii) Since the asset is procured only for the use of lessee, it is a finance lease.

(b) As per AS 19, where sale and leaseback results in operating lease, then the accounting treatment in different situations is as follows:

Situation 1: Sale price = Fair Value

Profit or loss should be recognized immediately.

Situation 2: Sale Price < Fair Value

Profit should be recognized immediately. The loss should also be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Situation 3: Sale Price > Fair Value

The excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Following will be the treatment in the situations given in the question:

(i) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognized by A Ltd. in its books provided loss is not compensated by future lease payment.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(ii) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortized over the lease period.

(iii) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46 less 40) to be immediately recognized in its books and balance profit of ₹4 lakhs (50-46) is to be amortized/deferred over lease period.

17. Computation of Basic earnings per share

	2017-18 ₹	2018-19 ₹
EPS for the year 2017-18 as originally reported: (₹ 1,00,00,000 / 50,00,000 shares)	2.00	
EPS for the year 2017-18 restated for rights issue: ₹1,00,00,000 / (50,00,000 shares x 1.01)*	1.98	
EPS for the year 2018-19 including effects of rights issue $\frac{\text{Rs. } 1,50,00,000}{(50,00,000 \times 1.01 \times 3/12) + (62,50,000 \times 9/12)}$		2.52

** Computation of Basic Earnings per share in case of Rights Issue requires computation of adjustment factor which is given as working note.*

Working Notes:

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

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

$$\frac{(₹\ 101 \times 50,00,000 \text{ shares}) + (₹\ 96 \times 12,50,000 \text{ shares})}{50,00,000 \text{ shares} + 12,50,000 \text{ shares}}$$

= ₹ 62,50,00,000 / 62,50,000 = ₹100

Therefore, theoretical ex-rights fair value per share is = ₹ 100

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{₹\ (101)}{₹\ (100)} = 1.01$$

18. (a) Accounting income and taxable income for a period are seldom the same. Permanent differences are those which arise in one period and do not reverse subsequently. For e.g., an income exempt from tax or an expense that is not allowable as a deduction for tax purposes. Timing differences are those which arise in one period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

(b) Table showing calculation of deferred tax asset / liability

Particulars	Amount	Timing differences	Deferred tax	Amount @ 30%
	₹			₹
Excess depreciation as per tax records (₹ 10,00,000 – ₹ 6,00,000)	4,00,000	Timing	Deferred tax liability	1,20,000
Unamortized preliminary expenses as per tax records	60,000	Timing	Deferred tax asset	(18,000)
Net deferred tax liability				1,02,000

19. (a) As per AS 24 "Discontinuing Operations", a discontinuing operation is a component of an enterprise:

a. That the enterprise, pursuant to a single plan, is:

(i) Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders or

(ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually or

(iii) Terminating through abandonment and

b. That represents a separate major line of business or geographical area of operations.

c. That can be distinguished operationally and for financial reporting purposes.

An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

- A description of the discontinuing operation(s);
- The business or geographical segment(s) in which it is reported as per AS 17;
- The date and nature of the initial disclosure event.
- The date or period in which the discontinuance is expected to be completed if known or determinable,
- The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

- The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
- The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto;
- The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(b) As per AS 26, subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense. However, if the subsequent expenditure enables the asset to generate future economic benefits in excess of its originally assessed standard of performance or can be measured and attributed to the asset reliably, then such subsequent expenditure should be added to the cost of the intangible asset.

The legal costs incurred for both the trademarks do not enable them to generate future economic benefits in excess of its originally assessed standard of performance. They only ensure to maintain them if the case is decided in favour of the company. Therefore, such legal costs incurred for both trademarks must be recognized as an expense.

20. (a) **A Contingent liability is a** possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

A present obligation that arises from past events but is not recognized because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) A reliable estimate of the amount of the obligation cannot be made.

An enterprise should not recognize a contingent liability but should be disclosed. A contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain. An enterprise should not recognize a contingent asset, since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. A contingent asset is not disclosed in the financial statements. It is usually disclosed in the report of the approving

© The Institute of Chartered Accountants of India

Downloaded From www.scanneradda.com

authority (Board of Directors in the case of a company, and, the corresponding approving authority in the case of any other enterprise), where an inflow of economic benefits is probable. Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.

(b) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognized. Alpha Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Alpha Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Alpha Ltd. should provide for the contingency amounting ₹ 2 crores as per AS 29.

© The Institute of Chartered Accountants of India