PAPER – 5: ADVANCED ACCOUNTING

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

A. Applicable for May, 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

(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)

The current Cash Reserve Ratio (CRR) is 4% 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 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

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

Accounting treatment

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

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

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

IV. 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.

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

Non-Applicability of Ind AS for May, 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 May, 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.

Exclusion of topics from the curriculum

- 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

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

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. Ram, Wazir and Adil give you the following Balance Sheet as on 31st March, 2019:

Liabilities		₹	Assets		₹
Ram's Loan		15,000	Plant and Machinery at cost		30,000
Capital Accounts:			Fixtures and Fittings		2,000
Ram	30,000		Stock		10,400
Wazir	10,000		Debtors	18,400	
Adil	2,000	42,000	Less: Provision	(400)	18,000
Sundry Creditors		17,800	Joint Life Policy		15,000
Loan on Hypothecation of			Patents and Trademarks		10,000
Stock		6,200	Cash at Bank		8,000
Joint Life Policy Reserve		12,400			
		93,400			93,400

The partners shared profits and losses in the ratio of Ram 4/9, Wazir 2/9 and Adil 1/3. Firm was dissolved on 31st March, 2019 and you are given the following information:

(a) Adil had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.

The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Adil's loan and ₹ 300 as interest thereon.

(b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

(c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.

(d) The remaining assets realized the following amount:

	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents	at 50% of their book value.

(e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.

(f) The expenses of realization amounted to ₹ 2,300.

You are required to prepare the Realization Account, Bank Account and Partners' Capital Accounts in columnar form. Also provide necessary working notes in your answer.

Conversion of Partnership firms into a company

2. The following is the Balance Sheet of M/s. Pratham and Kaushal as on 31st March, 2019:

Liabilities	₹	Assets	₹
Capital Accounts:		Machinery	54,000
Pratham	50,000	Furniture	5,000
Kaushal	30,000	Investments (non-trading)	50,000
Reserves	20,000	Stock	20,000
Loan Account of Kaushal	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		1,55,000

It was agreed that Mr. Rohan is to be admitted for a fourth share in the future profits from 1st April, 2019. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital.

The following further information is furnished:

(a) Pratham & Kaushal share the profits in the ratio 3 : 2.

(b) Pratham was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2012 in addition to share of profit.

(c) The future profit ratio between Pratham, Kaushal & Rohan will be 2:1:1. Pratham will not get any salary after the admission of Rohan.

(d) It was agreed that the value of goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended	Profit/(Loss)
31st March, 2015	25,000
31st March, 2016	12,500
31st March, 2017	(2,500)
31st March, 2018	35,000
31st March, 2019	30,000

The above Profits and Losses are after charging the Salary of Pratham. The Profit of the year ended 31st March, 2015 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2017 was on account of loss by strike to the extent of ₹ 20,000.

(e) The cash trading profit for the year ended 31st March, 2020 was ₹ 50,000 before depreciation.

(f) The partners had drawn each ₹ 1,000 p.m. as drawings.

(g) The value of other assets and liabilities as on 31st March, 2020 were as under:

	₹
Machinery (before depreciation)	60,000
Furniture (before depreciation)	10,000
Investment	50,000
Stock	15,000
Debtors	30,000
Creditors	20,000

(h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Kaushal's loan. The loan along with interest would be repaid within next 12 months.

(i) Investments (non -trading) are held from inception of the firm and interest is received @ 10% p.a.

(j) The partners applied for conversion of the firm into Karma Ltd., a Private Limited Company. Certificate was received on 1st April, 2020. They decided to convert Capital Accounts of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2020. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2020 and the Balance Sheet of the Company on 1st April, 2020.

Sale of Partnership firm to a Company

3. Mohit, Neel and Om were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm on 31st March, 2019 was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	
Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
Mohit		1,36,000
Neel		90,000
Om		46,000
Drawing A/cs:		
Mohit	50,000	
Neel	46,000	
Om	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31st March		2,48,600
Cash at Bank	1,78,600	——
	7,70,000	7,70,000

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a MNO Private Limited Company with an Authorized Share Capital of 2,00,000 shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are provided the following information:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the

same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.

3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.

4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

(a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.

(b) Capital Accounts showing all adjustments required to dissolve the Partnership.

(c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

Limited Liability Partnerships

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

(1) Applicable Law

(2) Number of Partners

(3) Ownership of Assets

(4) Liability of Partners/Members

Accounting for ESOPs

5. On 1st April, 2019, a company offered 100 shares to each of its 400 employees at ₹ 25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30th, April 2019. The market price of shares of the company on the grant date is ₹ 30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 28 per share.

Up to 30th April, 2019, 50% of employees accepted the offer and paid ₹ 25 per share purchased. Nominal value of each share is ₹ 10. You are required to record the issue of shares in the books of the company under the aforesaid plan.

Buy Back of Securities

6. The following was the Balance Sheet of C Ltd. as on 31st March ,2019:

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000

Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

Equity Shares with Differential Rights

7. (a) Can preference shares be also issued with differential rights? Explain in brief.

   (b) Explain the conditions under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

Amalgamation of Companies

8. P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000

8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

Internal Reconstruction of a Company

9. The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

	₹
A. Equity & Liabilities	
1. Shareholders' Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
(b) Reserve & Surplus:	
Profit & Loss Account	(2,00,000)
2. Non-current liabilities:	

			"A" 6% Debentures (Secured on Bombay Works)	3,00,000
			"B" 6% Debentures (Secured on Chennai Works)	3,50,000
	3.	**Current Liabilities and Provisions:**		
		(a)	Workmen's Compensation Fund:	
			Bombay Works	10,000
			Chennai Works	5,000
		(b)	Trade Payables	1,25,000
			Total	24,90,000
B.	**Assets:**			
	Non- current Assets:			
	1.	**PPE**:		
			Bombay Works	9,50,000
			Chennai Works	7,75,000
	2.	**Investment:**		
			Investments for Workman's Compensation Fund	15,000
	3.	**Current Assets:**		
		(a)	Inventories	4,50,000
		(b)	Trade Receivables	2,50,000
		(c)	Cash at Bank	50,000
				24,90,000

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Inventory was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

Liquidation of Company

10. Alpha Ltd. is under the process of liquidation. Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 37,50,000 against which payment was made as follows:

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

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

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

Banking Companies

11. Anmol Bank Ltd. has a balance of ₹ 40 crores in "Rebate on bills discounted" account as on 31st March, 2018. The Bank provides you the following information:

(i) During the financial year ending 31st March, 2019 Anmol Bank Ltd. discounted bills of exchange of ₹ 5,000 crores charging interest @ 14% and the average period of discount being 146 days.

(ii) Bills of exchange of ₹ 500 crores were due for realization from the acceptors/customers after 31st March, 2019. The average period of outstanding after 31st March, 2019 being 73 days. These bills of exchange of ₹ 500 crores were discounted charging interest @ 14% p.a.

You are requested to give the necessary Journal Entries in the books of Anmol Bank Ltd. for the above transactions.

NBFCs

12. LK Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 400 lakhs of which installments are overdue on 400 accounts for last two months (amount overdue ₹ 80 lakhs), on 24 accounts for three months (amount overdue ₹ 48 lakhs), on 10 accounts for more than 30 months (amount overdue ₹ 40 lakhs) and on 4 accounts for more than three years (amount over due ₹ 40 lakhs-already identified as sub-standard assets) and one account of ₹ 20 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 12 lakhs) for more than fourteen months and other are identified as sub-standard asset for a period of less than fourteen months.

    Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Consolidated Financial Statements

13. From the following summarized balance sheets of Kedar Ltd. and its subsidiary Vijay Ltd. drawn up at 31st March, 2019, prepare a consolidated balance sheet as at that date, having regard to the following:

    (i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1st April, 2018.

    (ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2018 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of Kedar Ltd. and Vijay Ltd. as on 31st March, 2019

Liabilities	Kedar Ltd.	Vijay Ltd.	Assets	Kedar Ltd.	Vijay Ltd.
	₹	₹		₹	₹
Equity and Liabilities			Non-current assets		
Shareholders' funds			Fixed assets		
Share Capital			Machinery	7,50,000	2,25,000
Shares of ₹ 100 each	15,00,000	2,50,000	Furniture	3,75,000	42,500

Reserves	5,00,000	1,87,500	Other non-current assets	11,00,000	3,75,000
Profit and Loss			Non-current Investments		
Account	2,50,000	62,500	Shares in Vijay Ltd.:		
Trade Payables	3,75,000	1,42,500	2,000 shares at ₹ 200 each	4,00,000	—
	26,25,000	6,42,500		26,25,000	6,42,500

Accounting Standards

AS 4 Contingencies and Events occurring after the Balance Sheet Date

14. (a) With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.

    (i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

    (ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

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

(b) Explain whether the following will constitute a change in accounting policy or not as per AS 5.

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

    (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

AS 7 Construction Contracts

15. (a) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount ₹ in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

AS 9 Revenue Recognition

(b) The following information of Meghna Ltd. is provided:

(i) Goods of ₹ 60,000 were sold on 20-3-2019 but at the request of the buyer these were delivered on 10-4-2019.

(ii) On 15-1-2019 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2019.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of Meghna Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9.

AS 17 Segment Reporting

16. (a) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments: (₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

AS 18 Related Party Transactions

(b) Arohi Ltd. sold goods for ₹ 90 lakhs to Anya Ltd. during financial year ended 31-3-2019. The Managing Director of Arohi Ltd. own 100% of Anya Ltd. The sales were made to Anya Ltd. at normal selling prices followed by Arohi Ltd. The Chief accountant of Arohi Ltd 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 the accounting standard. Is the Chief Accountant correct? Comment in accordance with AS 18.

AS 19 Leases

17. (a) ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹ 10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹ 3,50,000. The lessee has guaranteed a residual value of ₹ 50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹ 35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

AS 20 Earnings Per Share

(b) From the following information, you are required to compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2019 :

Net Profit for the year after tax:	₹ 75,00,000
Number of Equity Shares of ₹ 10 each outstanding:	₹ 10,00,000

1,00,000, 8% Convertible Debentures of ₹ 100 each were issued by the Company at the beginning of the year. 1,10,000 Equity Shares were supposed to be issued on conversion. Consider rate of Income Tax as 30%.

AS 22 Accounting for Taxes on Income

18. (a) The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2018:

	(₹ in lakh)
Deferred Tax Liability (Cr.)	30.00
Deferred Tax Assets (Dr.)	15.00

The following transactions were reported during the year 2018-2019:

i.	Tax Rate	30%
		(₹ in lakh)
ii.	Depreciation as per books	80.00
	Depreciation for tax purposes	70.00
iii.	Items disallowed in 2017-2018 and allowed for tax purposes in 2018-2019.	10.00
iv.	Donations to Private Trust made in 2018-2019.	10.00

There were no additions to Fixed Assets during the year.

You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31.03.2019.

AS 24 Discontinuing Operations

(b) (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?

(ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

AS 26 Intangible Assets

19. A company acquired patent right for ₹ 1200 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	1	2	3	4	5
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 150 lakhs. You are required to determine the amortization pattern under Accounting Standard 26.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. With reference to AS 29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates:

(i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

(ii) During 2018-19 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2019-20, the financial condition of Brew Ltd. deteriorates and on 31st Dec. 2019, it goes into liquidation. (Balance Sheet date 31-3-19).

SUGGESTED ANSWERS/HINTS

1. **Realization Account**

	₹		₹
To Plant and machinery	30,000	By Provision for doubtful debts	400
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)	3,000
To Stock	10,400	By Creditors (W.N.2)	500
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)	12,900
To Patents and Trademarks (W.N.5)	5,500	By Bank	
		Plant and machinery 17,000	
To Bank	2,300	Fixtures and fittings 1,000	
		Stock 9,000	
		Debtors 16,500	
		Patents and Trademarks 2,000	45,500
		By Partners' Capital Accounts	
		Ram 2,800	
		Wazir 1,400	
		Adil 2,100	6,300
	68,600		68,600

Bank Account

	₹		₹
To Balance b/d	8,000	By Adil's Capital A/c- drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500		
To Adil's Capital A/c	5,400	By Creditors	12,800
		By Realisation A/c (expenses)	2,300
		By Ram's Loan A/c	15,000
		By Ram's Capital A/c	27,200
		By Wazir's Capital A/c	8,600
	74,400		74,400

Partners' Capital Accounts

	Ram	Wazir	Adil		Ram	Wazir	Adil
	₹	₹	₹		₹	₹	₹
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (bal.fig.)			5,400
To Bank (Bal. Fig.)	27,200	8,600					
	30,000	10,000	7,400		30,000	10,000	7,400

Working Notes:

1. **Ram's Loan Account**

	₹		₹
To Bank A/c	15,000	By Balance b/d	15,000
	15,000		15,000

2. **Sundry Creditors Account**

	₹		₹
To Patents and Trademarks A/c	4,500	By Balance b/d	17,800
To Realisation A/c	500		
To Bank A/c	12,800		
	17,800		17,800

3. **Loan on Hypothecation of Stock Account**

	₹		₹
To Realisation A/c	3,000	By Balance b/d	6,200
To Bank A/c	3,200		
	6,200		6,200

4. **Joint Life Policy Account**

	₹		₹
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400
To Realisation A/c	12,900	By Bank A/c (10,200 + 5,300)	15,500
	27,900		27,900

5. **Patents and Trademarks Account**

	₹		₹
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	4,000*
	10,000		10,000

2. M/s Pratham, Kaushal and Rohan

Profit and Loss Account for the year ending on 31st March, 2020

	₹		₹
To Depreciation on Machinery	6,000	By Trading Profit	50,000
To Depreciation on furniture	500	By Interest on Investment	5,000
To Interest on Kaushal's loan	900		
To Net Profit to :			
Pratham's Capital A/c	23,800		
Kaushal's Capital A/c	11,900		
Rohan's Capital A/c	11,900		
	55,000		55,000

Balance Sheet of the Karma Pvt. Ltd. as on 1st April, 2020

	Notes No.	₹
I Equity and Liabilities		
Shareholders' funds		
Share capital		1,41,600
Current liabilities		
Short term borrowings	1	15,900
Trade payables		20,000
Total		1,77,500
II Assets		
Non-current assets		
Property, plant & Equipment	2	63,500
Non-current investments		50,000

Current assets		
Inventories		15,000
Trade receivables		30,000
Cash and cash equivalents		19,000
Total		1,77,500

Notes to Accounts

		₹
1. Short term borrowings		
Loan from Kaushal		15,900
2. PPE		
Machinery	54,000	
Furniture	9,500	63,500

Working Notes:

1. **Calculation of goodwill**

	2014-15 ₹	*2015-16* ₹	*2016-17* ₹	*2017-18* ₹	*2018-19* ₹
Profits/(Loss)	25,000	12,500	(2,500)	35,000	30,000
Adjustment for extraneous profit of 2014-15 and abnormal loss of 2016-17	(40,000)	-	20,000	—	—
	(15,000)	12,500	17,500	35,000	30,000
Add: Salary of Pratham (750 x12)	9,000	9,000	9,000	9,000	9,000
	(6,000)	21,500	26,500	44,000	39,000
Less: Interest on non-trading investment	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
	(11,000)	16,500	21,500	39,000	34,000
Total Profit from 2015-16 to 2018-19					1,11,000
Less: Loss for 2014-15					(11,000)
					1,00,000
Average Profit					20,000

Goodwill equal to 3 years' purchase					60,000
Contribution from Rohan for ¼ share					15,000

2. **Calculation of sacrificing ratio of Partners Pratham and Kaushal on admission of Rohan**

	Old share	New share	Sacrificing share	Gaining share
Pratham	3/5	1/2	$\frac{3}{5}-\frac{1}{2}=\frac{6-5}{10}=\frac{1}{10}$	
Kaushal	2/5	1/4	$\frac{2}{5}-\frac{1}{4}=\frac{8-5}{20}=\frac{3}{20}$	
Rohan		1/4		1/4

3. **Goodwill adjustment entry through Partners' capital accounts (in their sacrificing ratio of 2:3)**

		₹	₹
Rohan' s capital A/c	Dr.	15,000	
To Pratham's capital A/c			6,000
To Kaushal' s capital A/c			9,000
(Rohan's share in goodwill adjusted through Pratham and Kaushal)			

4. **Partners' Capital Accounts**

	Pratham ₹	*Kaushal* ₹	*Rohan* ₹		*Pratham* ₹	*Kaushal* ₹	*Rohan* ₹
To Drawings (1,000 x 12)	12,000	12,000	12,000	By Balance b/d	50,000	30,000	—
To Pratham			6,000	By General Reserve	12,000	8,000	—
To Kaushal			9,000	By *Rohan*	6,000	9,000	—
To Balance c/d	79,800	46,900	14,900	By Bank (15,000 + 15,000)	—	—	30,000
				By Profit & Loss A/c	23,800	11,900	11,900
	91,800	58,900	41,900		91,800	58,900	41,900

5. **Balance Sheet of the firm as on 31st March, 2020**

Liabilities ₹		₹	*Assets* ₹		₹
Pratham's Capital	79,800		Machinery	60,000	
Kaushal's Capital	46,900		*Less*: Depreciation	(6,000)	54,000
Rohan's Capital	14,900	1,41,600	Furniture	10,000	
			Less: Depreciation	(500)	9,500
Kaushal's Loan	15,000		Investments		50,000
Add: Interest due	900	15,900	Stock-in-trade		15,000
Creditors		20,000	Debtors		30,000
			Cash (W.N.6)		19,000
		1,77,500			1,77,500

6. **Cash balance as on 31.3.2020**

	₹	₹
Cash trading profit		50,000
Add: Investment Interest		5,000
Add: Decrease in Stock Balance		5,000
		60,000
Less: Increase in Debtors	9,000	
Less: Decrease in Creditors	20,000	(29,000)
		31,000
Add: Opening cash balance	5,000	
Add: Cash brought in by *Rohan*	30,000	35,000
		66,000
Less: Drawings (12,000 +12,000 +12,000)	36,000	
Less: Additions to Machine (60,000 - 54,000)	6,000	
Furniture (10,000 - 5,000)	5,000	(47,000)
Closing cash balance		19,000

7. **Distribution of shares – Conversion into Company**

		₹
Capital:	Pratham	79,800
	Kaushal	46,900
	Rohan	14,900

Share Capital		1,41,600
Distribution of shares:	Pratham (1/2)	70,800
	Kaushal (1/4)	35,400
	Rohan (1/4)	35,400

Pratham and Kaushal should withdraw capital of ₹ 9,000 (₹ 79,800 – ₹ 70,800) and ₹11,500 (₹ 46,900 – ₹ 35,400) respectively and Rohan should subscribe shares of ₹ 20,500 (₹35,400 – ₹ 14,900).

3. (a) **Number of Shares to be issued to Partners**

	₹
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 +Trade Receivable ₹1,24,000 + Bank ₹ 1,00,000	5,01,400
Less: Liabilities taken over	(1,69,400)
Net Assets taken over (Purchase Consideration)	3,32,000

Classes of Shares to be issued :	Mohit	Neel	Om	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each	30,000	18,000	12,000	60,000
(3,32,000 -2,72,000) (issued in profit sharing ratio)				
	1,66,000	1,08,000	58,000	3,32,000

(b) **Partners' Capital Accounts**

Particulars	Mohit	Neel	Om	Particulars	Mohit	Neel	Om
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank – Additional	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
drawings (W.N. 2)							
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000-₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(c) Balance sheet of MNO Ltd. as on 31st March, 2019 (after Takeover of Firm)

		Note no.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		1,69,400
	Total		5,01,400
II	Assets		
	(1) Non-Current Assets		
	Property, plant & equipment		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		1,00,000
	Total		5,01,400

Notes to Accounts

	Particulars	₹
1.	Shares capital	
	Authorized shares capital	20,00,000
	Issued, Subscribed & paid up	
	6,000 Equity Shares of ₹ 10 each	60,000
	27,200 10% Preference Shares capital of ₹ 10 each	2,72,000
	(All above shares issued for consideration other than cash, in takeover of partnership firm)	3,32,000

Working Note:

1. **Profit & Loss Appropriation Account for the year ended 31st March, 2019**

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit	2,48,600

Mohit [₹ 1,36,000 x 10%]	13,600		(given)	
Neel [₹ 90,000 x 10%]	9,000			
Om [₹ 46,000 x 10%]	4,600	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
Mohit	1,10,700			
Neel	66,420			
Om	44,280	2,21,400		
Total		2,48,600		2,48,600

2. **Statement showing Additional Drawings in Cash**

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	78,600
		2,08,600
Less:	Interest on Capital	(27,200)
	Amount available for Additional Drawings	1,81,400

(b) Ascertainment of Additional Drawings

Particulars	Mohit	Neel	Om
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	13,600	9,000	4,600
	1,04,300	63,420	40,880
Less: Already drawn	(50,000)	(46,000)	(34,000)
Additional Drawings	54,300	17,420	6,880

4. Distinction between an ordinary partnership firm and an LLP

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit

Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

5. Fair value of an option = ₹ 28

Difference between Fair value and Issue Price =₹ 28 – ₹ 25 = 3.

Number of employees accepting the offer = 400 employees x 50% = 200 employees

Number of shares issued = 200 employees x 100 shares/employee = 20,000 shares

Employee Compensation Expenses recognized in 2019-20 =20,000 shares x ₹ 3 = ₹ 60,000

Securities Premium A/c = ₹ 28 – 10 = ₹ 18 per share = 20,000 x 18 = ₹ 3,60,000

Journal Entry

Date	*Particulars*		*₹*	*₹*
30.04.2019	Bank (20,000 shares x ₹ 25)	Dr.	5,00,000	
	Employees compensation expense A/c	Dr.	60,000	
	To Share Capital			2,00,000
	To Securities Premium			3,60,000
	(Being stock purchase option accepted by 200 employees for 100 shares each at ₹ 25 per share on a Fair Value of ₹ 28 per share)			

Note: Employees compensation expenses amounting ₹ 60,000 will ultimately be charged to profit & loss account.

6. (i) Journal Entries in the books of C Ltd. (₹ in lakhs)

	Particulars			
1	Bank A/c	Dr.	2,500	
	To Investments A/c			2,350
	To Profit and Loss A/c			150
	(Being investment sold on profit for the purpose of buy-back)			
2	10% Redeemable Preference Share Capital A/c	Dr.	2,500	

	Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr.	250	 2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	 250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	 1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr.	550 250	 800
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		2,750 1,600	 4,350
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		3,300	 3,300

(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)

(₹ Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	7,200

	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,700
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		8,250
			22,700

Notes to Accounts

				₹ in Lakhs
1.	**Share Capital**			
	720 lakh Equity Shares of ₹ 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2.	**Reserves and Surplus**			
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	(3,300)	2,450	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,300	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)	-	
	Profit & Loss A/c	300		

	Add: Profit on sale of investment	150	450	7,200
3.	**Long-term borrowings**			
	Secured			
	9 % Debentures			5,000

Working Note:

Bank Account

Receipts	Amount	Payments	Amount
	(₹ Lakhs)		(₹ Lakhs)
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	450
	4,800		4,800

7. (a) No. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued with differential rights.

(b) In exercise of the power conferred under Section 43(a)(ii), the central government announced Rule 4 under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

The rules lay down the following conditions to be compulsorily complied with:

(a) The articles of association of the company authorizes the issue of shares with differential rights;

(b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;

(c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;

(d) The company having consistent track record of distributable profits for the last three years;

(e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

(f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;

(g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;

(h) The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

8. **In the Books of P Ltd.**

Realization Account

		₹			₹
To	Land & Building	4,50,000	By	8% Debentures	2,00,000
To	Plant & Machinery	6,20,000	By	Trade Payables	88,000
To	Furniture & Fitting	1,00,000	By	PQ Ltd.	16,02,100
To	Trade receivables	3,25,000		(Purchase consideration)	
To	Inventory/Stock	2,33,000	By	Equity Shareholders A/c	1,37,900
To	Cash at Bank	2,08,000		(loss)	
To	Cash in Hand	54,000			
To	Preference shareholders	38,000			
	(excess payment)				
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

To	Preference Shares in PQ Ltd.	4,18,000	By	Pref. Share capital	3,80,000
			By	Realization A/c	38,000
		4,18,000			4,18,000

PQ Ltd. Account

To	Realization A/c	16,02,100	By Shares in PQ Ltd.		
			For Equity	10,82,400	15,00,400
			For Pref.	4,18,000	
			By Cash		1,01,700
		16,02,100			16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

		₹			₹
To	Land & Building	3,40,000	By	8% Debentures	1,00,000
To	Plant & Machinery	4,50,000	By	Trade payables	1,60,000
To	Furniture & Fittings	50,000	By	Unsecured loan	1,75,000
To	Trade receivables	1,50,000	By	PQ Ltd. (Purchase	
To	Inventory	1,05,000		consideration)	7,92,250
To	Cash at bank	1,75,000	By	Equity Shareholders A/c	90,750
To	Cash in hand	20,000		Loss	
To	Pref. shareholders	28,000			
		13,18,000			13,18,000

Equity Shareholders Account

		₹			₹
To	Equity shares in PQ Ltd.	4,22,400	By	Share Capital	3,20,000
To	Realization	90,750	By	Profit & Loss A/c	2,05,000

		₹		₹
To	Cash	61,850	By General Reserve	50,000
		5,75,000		5,75,000

9% Preference Shareholders Account

		₹		₹
To	Preference Shares in PQ Ltd.	3,08,000	By Share capital	2,80,000
			By Realization A/c	28,000
		3,08,000		3,08,000

PQ Ltd. Account

		₹			₹
To	Realization A/c	7,92,250	By Equity shares in PQ Ltd.		
			For Equity	4,22,400	
			Preference	3,08,000	7,30,400
			By Cash		61,850
		7,92,250			7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	*Q Ltd.* ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

	P Ltd. ₹	*Q Ltd.* ₹
Land & Building	4,50,000	3,40,000
Plant & Machinery less 10% Depreciation	5,58,000	4,05,000

Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		2,08,000		1,75,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	–	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)

	P	Q
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

**This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.*

9. In the books of Star Ltd.

Journal Entries

Particulars		*Amount* ₹	*Amount* ₹
(i)	7% Preference share capital (₹ 100) Dr.	9,00,000	
	To 9% Preference share capital (₹ 80)		7,20,000
	To Capital reduction A/c		1,80,000
	(Being preference shares reduced to ₹ 80 and also rate of dividend raised from 7% to 9%)		

(ii)	Equity share capital A/c (₹ 100 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 10 each)			1,00,000
	To Capital reduction A/c			9,00,000
	(Being reduction of nominal value of one share of ₹ 100 each to ₹ 10 each)			
(iii)	Bank A/c	Dr.	50,000	
	To Capital reduction A/c			50,000
	(Being directors refunded the fee amount)			
(iv)	Trade payables A/c (Interest on debentures)	Dr.	26,000	
	To Capital reduction A/c			26,000
	(Being interest forgone by the debenture holders)			
(v)	No entry required			
(vi) a	'B' 6% Debentures A/c	Dr.	3,50,000	
	To Debentures holders A/c			3,50,000
	(Being amount due to Debentures holders)			
b	Debentures holders A/c	Dr.	4,40,000	
	To Chennai Works A/c			4,25,000
	To Equity share capital A/c			15,000
	(Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)			
c	Equity share of Zia ltd. A/c	Dr.	90,000	
	To Debentures holders A/c			90,000
	(Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)			
(vii) a	Chennai Works – Workmen Compensation Fund	Dr.	4,000	
	To Capital reduction A/c			4,000
	(Being difference due to reduced amount of actual liability transferred to capital reduction account)			
b	Bank A/c	Dr.	15,400	
	To Investment for Workmen Compensation Fund			14,000

	To Capital reduction A/c			1,400
	(Being investment for Workmen Compensation Fund sold @ 10% profit)			
c	Trade Payables A/c	Dr.	15,400	
	To Bank A/c			15,400
	(Being part payment made to trade payables)			
(viii)	Capital reduction A/c	Dr.	2,10,000	
	To Provision for Doubtful Debts A/c			20,000
	To Inventory A/c			1,90,000
	(Being assets revalued)			
(ix)	Capital reduction A/c	Dr.	5,50,000	
	To Profit & Loss A/c			2,00,000
	To PPE – Chennai Works			3,50,000*
	(Being assets revalued and losses written off)			
(x)	Capital reduction A/c	Dr.	4,01,400	
	To PPE – Bombay Works			2,67,600
	To Capital reserve A/c			1,33,800
	(Being assets revalued and remaining amount transferred to capital reserve account)			

10. Calculation of Total Remuneration payable to Liquidator

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

Working Note:

Liquidator's remuneration on payment to unsecured creditors

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

* ₹ 7,75,000 less ₹ 4,25,000

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

Liquidator's remuneration

= 3/103 x ₹ 20,21,625= ₹ 58,882

11. **In the books of Anmol bank Ltd.**

Journal Entries *₹ in crores*

Particulars		*Debit*	*Credit*
Rebate on bills discounted A/c	Dr.	40	
To Discount on bills A/c			40
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')			
Bills purchased and discounted A/c	Dr.	5,000	
To Discount on bills A/c			280
To Clients A/c			4,720
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	14	
To Rebate on bills discounted A/c			14
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			
Discount on bills A/c	Dr.	306	
To Profit and Loss A/c			306
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)			

Working Notes:

1. **Discount received on the bills discounted during the year**

   ₹ 5,000 crores x 14/100 x 146/365 = ₹ 280 crores

2. **Calculation of rebate on bill discounted**

   ₹ 500 crores x 14/100 x 73/365 = ₹14 crores

3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c.

Discount on bills A/c

₹ in crores

Date	Particulars	Amount	Date	Particulars	Amount
31.3.2019	To Rebate on bills discounted	14	1.4.2018	By Rebate on bills discounted b/d	40
"	To Profit and Loss A/c (Bal. Fig.)	306	2018-19	By Bills purchased and discounted	280
		320			320

12. Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

		(₹ in lakhs)
Standard Assets		
Accounts (Balancing figure)	172.00	
400 accounts overdue for a period for 2 months	80.00	
24 accounts overdue for a period by 3 months	48.00	300.00
Sub-Standard Assets		
4 accounts identified as sub-standard asset for a period less than 14 months		28.00
Doubtful Debts		
6 accounts identified as sub-standard for a period more than 14 months		12.00
4 accounts identified as sub-standard for a period more than 3 years		40.00
Loss Assets		
1 account identified by management as loss asset		20.00
Total overdue		400.00

13. Consolidated Balance Sheet of Kedar Ltd. and its Subsidiary Vijay Ltd. as at 31st March, 2019

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000

	(b) Reserves and Surplus	1	8,61,500
	(2) Minority Interest (W.N.5)		1,20,375
	(3) Current Liabilities		
	(a) Trade Payables	2	5,17,500
	Total		29,99,375
II.	**Assets**		
	(1) Non-current assets		
	(a) (i) Property, Plant & Equipment	3	14,94,375
	(ii) Intangible assets	4	30,000
	(b) Other non- current assets	5	14,75,000
	Total		29,99,375

Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.		1,42,500	5,17,500
3.	**Property, Plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	
	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture	-		

	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

		₹
1.	**Pre-acquisition profits and reserves of Vijay Ltd.**	₹
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Kedar Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of Vijay Ltd.**	-
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹ (50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Kedar Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of Vijay Ltd.**	-
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000
4.	**Post -acquisition profits of Vijay Ltd.**	-
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	-
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875

	Less: Under depreciation on machinery @ 10%	-
	on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
	Adjusted post-acquisition profits	14,375
	Kedar Ltd.'s share 4/5 × 14,375	11,500
	Minority Interest 1/5 × 14,375	2,875
5.	**Minority Interest**	-
	Paid-up value of (2,500 – 2,000) = 500 shares	-
	held by outsiders i.e. 500 × ₹ 100	50,000
	Add: 1/5th share of pre-acquisition profits and reserves	20,000
	1/5th share of profit on revaluation	22,500
	1/5th share of post-acquisition reserves	25,000
	1/5th share of post-acquisition profit	2,875
		1,20,375
6.	**Cost of Control or Goodwill**	
	Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
	Add: 4/5th share of pre-acquisition profits and reserves	80,000
	4/5th share of profit on the revaluation	90,000
	Intrinsic value of shares on the date of acquisition	3,70,000
	Price paid by Kedar Ltd. for 2,000 shares	4,00,000
	Less: Intrinsic value of the shares	(3,70,000)
	Cost of control or Goodwill	30,000

14. (a) According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is non-adjusting in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a non-adjusting event.

(b) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy.

(i) Accordingly, 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.

(ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy

15. (a) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in ₹ lakhs)

	Up to the reporting date	*Recognized in previous years*	*Recognized in current year*
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note:

	Year 1	*Year 2*	*Year 3*
Revenue after considering variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6,068 (6,168-100)	8,200 (8,100+100)
Degree of completion (B/A)	26%	74%	100%

(b) 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) The sale is complete but delivery has been postponed at buyer's request. M/s Paper Products Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2019.

Case (ii) 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a **third party.**

Case (iii) In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

Case (iv) Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

16. (a) As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

(i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

(ii) Its segment **result** whether profit or loss is 10% or more of:

(1) The combined result of all segments in profit; or

(2) The combined result of all segments in loss,

whichever is greater in absolute amount; or

(iii) Its segment **assets** are 10% or more of the total assets of all segments.

Further, if the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

Accordingly,

(a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.

(b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).

(c) On the basis of **asset** criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast one of the above criteria, all segments have to be reported upon in accordance with AS 17.

Hence, the opinion of chief accountant that only segment 'A' is reportable is wrong.

(b) As per AS 18 'Related Party Disclosures', Enterprises over which the key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise. In the given case, Arohi Ltd. and Anya Ltd. are related parties 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 Arohi Ltd. is wrong.

17. (a) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is ₹ 10, 00,000 and the net present value of minimum lease payments is ₹ 10, 07,020 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value of ₹10,00,000.

Calculation of finance charges for each year

Year	*Finance charge (₹)*	*Payment (₹)*	*Reduction in outstanding liability (₹)*	*Outstanding liability (₹)*
1st year beginning	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor ₹ 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523)	₹ 9,79 ,405
Present value of guaranteed residual value ₹ 50,000 x (0.5523)	₹ 27,615
	₹ 10,07,020

(b) Computation of basic earnings per share

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

₹ 75,00,000 / 10,00,000 = ₹ 7.50 per share

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

Adjusted net profit for the current year

	₹
Net profit for the current year	75,00,000
Add: Interest expense for the current year	8,00,000
Less: Tax relating to interest expense (30% of ₹ 8,00,000)	(2,40,000)
Adjusted net profit for the current year	80,60,000

Number of equity shares resulting from conversion of debentures

= 1,10,000 Equity shares (given in the question)

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

= 11,10,000 shares (10,00,000 + 1,10,000)

Diluted earnings per share

= ₹ 80,60,000/ 11,10,000

= ₹ 7.26 per share

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

18. (a) **Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset**

Transactions	*Analysis*	*Nature of difference*	*Effect*	*Amount*
Difference in depreciation	Generally, written down value method of depreciation is adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.	Responding timing difference	Reversal of DTL	₹ (80-70) lakh × 30% = ₹ 3 lakh
Disallowances, as per IT Act, of earlier years	Tax payable for the earlier year was higher on this account.	Responding timing difference	Reversal of DTA	₹ 10 lakh × 30% = ₹ 3 lakh
Donation to private trusts	Not an allowable expenditure under IT Act.	Permanent difference	Not applicable	Not applicable

(b) (i) 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 (as defined in paragraph 15) occurs:

(a) a description of the discontinuing operation(s);

(b) the business or geographical segment(s) in which it is reported as per

AS 17, Segment Reporting;

(c) the date and nature of the initial disclosure event;

(d) the date or period in which the discontinuance is expected to be completed if known or determinable;

(e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;

(f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;

(g) 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; and

(h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.

(ii) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

(i) Gradual or evolutionary phasing out of a product line or class of service;

(ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;

(iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and

(iv) Closing of a facility to achieve productivity improvements or other cost savings.

An example in relation to consolidated financial statements is selling a subsidiary whose activities are similar to those of the parent or other subsidiaries.

19. Amortization of cost of patent as per AS 26

Year	*Estimated future cash flow (₹ in lakhs)*	*Amortization Ratio*	*Amortized Amount (₹ in lakhs)*
1	600	.25	300
2	600	.25	300
3	600	.25	300

4	300	.40 (Revised)	120
5	300	.40 (Revised)	120
6	150	.20 (Revised)	60
			1,200

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (600: 600: 600: 300: 300).

The unamortized amount of the patent after third year will be ₹ 300 lakh (1,200-900) which will be amortized in the ratio of revised estimated future cash flows (300:300:150) in the fourth, fifth and sixth year.

20. **(i)** The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig. However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date.

Ten per cent of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

(ii) As per AS 29, for a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation.

The obligating event is the giving of the guarantee by Ace Ltd. for certain borrowings of Brew Ltd., which gives rise to an obligation. No outflow of benefits is probable at 31 March 2019.Thus no provision is recognized. The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

During 2019-20, the financial condition of Brew Ltd. deteriorates and finally goes into liquidation. The obligating event is the giving of the guarantee, which gives rise to a legal obligation. At 31 March 2020, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Thus, provision is recognized for the best estimate of the obligation.