

**MOCK TEST PAPER**  
**INTERMEDIATE (NEW) : GROUP – II**  
**PAPER – 5: ADVANCED ACCOUNTING**  
**SUGGESTED ANSWERS/HINTS**

1. (a) As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:
- (a) separate proposals have been submitted for each asset;
  - (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
  - (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

**(b) Computation of theoretical ex-rights fair value per share**

Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise of rights

$$\frac{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}{5,00,000 \text{ shares} + 1,00,000 \text{ shares}}$$

$$\frac{(\text{₹ } 21.00 \times 5,00,000 \text{ shares}) + (\text{₹ } 15.00 \times 1,00,000 \text{ shares})}{5,00,000 \text{ shares} + 1,00,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 20.00

(a) **Computation of adjustment factor**

(b) 
$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = \frac{\text{₹ } (21.00)}{\text{₹ } (20.00)} = 1.05$$

**Computation of earnings per share**

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (₹ 11,00,000/5,00,000 shares)	₹ 2.20	
EPS for the year 2015-16 restated for rights issue: [₹ 11,00,000/ (5,00,000 shares x 1.05)]	₹ 2.10	
EPS for the year 2016-17 including effects of rights issue $\frac{\text{₹ } 15,00,000}{(5,00,000 \times 1.05 \times 2 / 12) + (6,00,000 \times 10 / 12)}$		₹ 2.55

- (c) Following will be the treatment in the given cases:
- (i) When sales price of ₹ 50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 10 lakhs (i.e. 50 – 40) in its books.
  - (ii) When fair value of leased machinery is ₹ 45 lakhs & sales price is ₹ 38 lakhs, then loss of ₹ 2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not

compensated by future lease payment.

- (iii) When fair value is ₹ 40 lakhs & sales price is ₹ 50 lakhs then, profit of ₹ 10 lakhs is to be deferred and amortised over the lease period.
- (iv) When fair value is ₹ 46 lakhs & sales price is ₹ 50 lakhs, profit of ₹ 6 lakhs (46-40) to be immediately recognised in its books and balance profit of ₹ 4 lakhs (50-46) is to be amortised/deferred over lease period.
- (v) When fair value is ₹ 35 lakhs & sales price is ₹ 39 lakhs, then the loss of ₹ 5 lakhs (40-35) to be immediately recognised by A Ltd. in its books and profit of ₹ 4 lakhs (39-35) should be amortised/deferred over lease period.
- (d) (i) 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 recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹ 1.5 crores as per AS 29.
- (ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting ₹ 1.50 crores.

**2. (a) Statement showing liability of underwriters**

a	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares]	1:1	15,00,000	15,00,000
B.	Less: Marked Applications {Net of firm underwriting}		<u>(15,00,000)</u>	<u>(10,20,000)</u>
C.	Balance [A-B]		-	4,80,000
D.	Less: Unmarked Applications	1:1	<u>(1,20,000)</u>	<u>(1,20,000)</u>
E.	Balance [C-D]		(1,20,000)	3,60,000
F.	Less: Firm Underwriting		<u>(60,000)</u>	<u>(60,000)</u>
G.	Balance		(1,80,000)	3,00,000
H.	Credit for White 's Oversubscription		<u>1,80,000</u>	<u>(1,80,000)</u>
I.	Net Liability		-	1,20,000
J.	Add: Firm Underwriting		<u>60,000</u>	<u>60,000</u>
K.	Total Liability [No. Shares]		60,000	1,80,000

**Note:** In the above statement, it has been assumed that the benefit of firm underwriting is given to individual underwriter.

**Journal Entries**

2016				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000
	(Being application money received @ ₹ 2.50 per share)			
March	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			

March	Equity Share Allotment A/c (28,80,000 x ₹ 3) To Equity Share Capital A/c (28,80,000 x ₹ 2.5) To Securities Premium A/c (28,80,000 x ₹ 0.5) (Being allotment money due on 28,80,000 shares allotted to public)	Dr.	86,40,000	
				72,00,000
				14,40,000
March	Black (1,20,000 x ₹ 5.5) To Equity Share Capital A/c (1,20,000 x ₹ 5) To Securities Premium A/c (1,20,000 x ₹ 0.5) (Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)	Dr.	6,60,000	
				6,00,000
				60,000
March	Bank A/c To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3] To Black (1,20,000 x ₹ 5.5) (Being the receipt of money due on allotment except from the allottee for 6,000 shares)	Dr.	92,82,000	
				86,22,000
				6,60,000
March	Underwriting Commission A/c To Black A/c To White A/c (Being commission @ 4 % on issue price of ₹ 10.50 for ₹ 30 lakh shares payable to underwriters)	Dr.	12,60,000	
				6,30,000
				6,30,000
March	Black A/c White A/c To Bank A/c (Being commission paid to underwriters)		6,30,000 6,30,000	12,60,000
June 30	Equity Share Capital A/c (6,000 x 5) Securities Premium A/c (6,000 x 0.5) To Share Allotment A/c (6,000 x 3) To Forfeited Shares A/c (6,000 x 2.5) (Being 6,000 shares forfeited vide Board's Resolution)	Dr. Dr.	30,000 3,000	18,000 15,000
June 30	Bank A/c (6,000 x ₹ 4) Forfeited Shares A/c To Equity Share Capital A/c (6,000 x ₹ 5) (Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)	Dr. Dr.	24,000 6,000	30,000
	Forfeited Shares A/c (15,000 – 6,000) To Capital Reserve A/c (Being the transfer of profit on reissue)	Dr.	9,000	9,000

**(b) Statement determining the maximum number of shares to be bought back**

**Number of shares (in crores)**

Particulars	When loan fund is	
	₹ 3,200 crores	₹ 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
<b>Maximum number of shares that can be bought back [least of the above]</b>	<b>24</b>	<b>Nil</b>

**Journal Entries for the Buy Back**

**(applicable only when loan fund is ₹ 3,200 crores)**

		₹ in crores	
		Debit	Credit
(a)	Equity share buyback account To Bank account (Being payment for buy back of 24 crores equity shares of ₹ 10 each @ ₹ 30 per share)	Dr. 720	720
(b)	Equity share capital account Premium Payable on buyback account To Equity share buyback account (Being cancellation of shares bought back)	Dr. Dr. 240 480	720
	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buyback account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr. 400 80	480
(c)	General Reserve / Profit & Loss A/c To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr. 240	240

**Working Notes:**

**1. Shares Outstanding Test**

Particulars	(Shares in crores)
Number of shares outstanding	120
25% of the shares outstanding	30

**2. Resources Test**

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	<u>1,680</u>
Shareholders' funds (₹ in crores)	<u>2,880</u>
25% of Shareholders fund (₹ in crores)	₹ 720 crores
Buy back price per share	₹ 30
Number of shares that can be bought back	24 crores shares

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

Particulars		When loan fund is	
		₹ 3,200 crores	₹ 6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (₹)	2,880	2,880
(d)	Future equity shareholders fund (₹) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

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

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

Equation 1 : (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy Back

$$= (2,880 - x) - 1,600 = y$$

$$= 1280 - x = y \quad (1)$$

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share

$$= \left( \frac{y}{30} \times 10 \right) = x \quad \text{Or} \quad 3x = y \quad (2)$$

by solving the above two equations we get

$$x = ₹ 320$$

$$y = ₹ 960$$

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

Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(i)	8% Preference share capital A/c (₹100 each) Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)		320
	To Capital Reduction A/c		80
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)		

(ii)	Equity share capital A/c (₹10 each) To Equity share capital A/c (₹ 2 each) To Capital Reduction A/c (Being the equity shares of ₹10 each reduced to ₹ 2 each)	Dr.	1,000		
					200
					800
(iii)	Capital Reduction A/c To Equity share capital A/c (₹ 2 each) (Being 1/3 <sup>rd</sup> arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)	Dr.	32		
					32
(iv)	6% Debentures A/c To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	Dr.	300		
					300
(v)	Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr.	24		
					24
(vi)	Freehold property A/c To Capital Reduction A/c (Being appreciation in the value of freehold property)	Dr.	150		
					150
(vii)	Bank A/c To Investments A/c To Capital Reduction A/c (Being investment sold at profit)	Dr.	250		
					200
					50
(viii)	Director's loan A/c To Equity share capital A/c (₹ 2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)	Dr.	300		
					90
					210
(ix)	Capital Reduction A/c To Profit and Loss A/c To Trade receivables A/c (450x 40%) To Inventories-in-trade A/c (300x 80%) To Bank A/c (600 x 5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)	Dr.	972		
					522
					180
					240
					30
(x)	Capital Reduction A/c To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)			286	
					286

**Capital Reduction Account**

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

**Notes to Balance Sheet**

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

**(b) Calculation of Total Remuneration payable to Liquidator**

		Amount in ₹
2% on Assets realised	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		<u>39,255</u>
Total Remuneration payable to Liquidator		<u>91,505</u>

**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

$$= ₹ 25,00,000 - ₹ 25,000 - ₹ 10,00,000 - ₹ 75,000 - ₹ 50,000 - ₹ 2,250 = ₹ 13,47,750.$$

Liquidator's remuneration on payment to unsecured creditors =  $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

4. (a)

**Name of the Insurer: Xeta Insurance Company Limited**

**Registration No. and Date of registration with IRDA: .....**

**Revenue Account for the year ended 31<sup>st</sup> March, 2016**

<i>Particulars</i>	<i>Schedule</i>	<i>Amount (₹)</i>
Premium earned (net)	1	26,67,500
Profit on sale of investment		30,000
Others		-
Interest and dividend (gross)		1,50,000
Total (A)		28,47,500
Claims incurred (Net)	2	20,25,000
Commission	3	50,000
Operating expenses related to insurance	4	7,50,000
Total (B)		28,25,000
Operating profit from insurance business (A) – (B)		22,500

**Schedule –1 Premium earned (net)**

	₹
Premium received	33,60,000
Less: Premium on reinsurance ceded	<u>(2,25,000)</u>
Net Premium	31,35,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	<u>(4,67,500)</u>
Total premium earned	<u>26,67,500</u>

**Schedule -2 Claims incurred (net)**

	₹
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31 <sup>st</sup> March, 2016	2,70,000
	22,20,000
Less: Claims outstanding as on 31 <sup>st</sup> March, 2015	(1,95,000)
	20,25,000

**Schedule -3 Commission**

	₹
Commission paid	50,000



**Schedule-4 Operating expenses related to Insurance Business**

	₹
Expenses of management (₹ 8,40,000 – ₹ 90,000)	7,50,000

**Working Note:**

**Calculation for change in Reserve for Unexpired risk:**

		₹
Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2016	15,67,500	
Additional Reserve as on 31 <sup>st</sup> March, 2016	<u>7,00,000</u>	22,67,500
Less: Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2015	15,00,000	
Additional Reserve as on 31 <sup>st</sup> March, 2015	<u>3,00,000</u>	<u>(18,00,000)</u>
		4,67,500

(b)

**In the books of Strong Bank Ltd.**

**Journal Entries**

Particulars		Debit (₹)	Credit (₹)
Rebate on bills discounted A/c	Dr.	27	
To Discount on bills A/c			27
(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.	4,000	
To Discount on bills A/c			240
To Clients A/c			3,760
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	18	
To Rebate on bills discounted A/c			18
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			
Discount on bills A/c	Dr.	249	
To Profit and Loss A/c			249
(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

$$₹ 4,000 \text{ crores} \times \frac{15}{100} \times \frac{146}{365} = ₹ 240 \text{ crores}$$

2. Calculation of rebate on bill discounted

$$₹ 600 \text{ crores} \times \frac{15}{100} \times \frac{73}{365} = ₹ 18 \text{ crores}$$

(It is assumed that discounting rate of 15% is used for the bill of ₹ 600 crores also)

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 March 2017	To Rebate on bills discounted	18	1 <sup>st</sup> April, 2016	By Rebate on bills discounted b/f	27
"	To Profit and Loss A/c (Bal. Fig.)	<u>249</u>	2016-17	By Bills purchased and discounted	<u>240</u>
		<u>267</u>			<u>267</u>

(c)

	₹ in lakhs	₹ in lakhs	
Opening bank balance [₹ (100 – 90 - 5) lakhs]	5.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	<u>1.20</u>	46.20	
Less: Cost of securities	28.20		
Fund management expenses [₹ (4.50–0.35) lakhs]	4.15		
Capital gains distributed [75% of ₹ (40.00 – 38.00) lakhs]	1.50		
Dividends distributed (75% of ₹ 1.20 lakhs)	<u>0.90</u>	<u>(34.75)</u>	
Closing bank balance		11.45	
Closing market value of portfolio		<u>112</u>	
		123.45	
Less: Arrears of expenses		<u>(0.35)</u>	
Closing net assets		<u>123.10</u>	
Number of units			10,00,000
Closing Net Assets Value (NAV)			₹ 12.31

**5. (a) Consolidated Profit & Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017**

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	<u>5,865</u>
II. Total revenue		<u>5,865</u>
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	<u>535</u>
Total expenses		<u>1,769</u>
IV. Profit before Tax(II-III)		4,096

V. Tax Expenses	8	<u>1,400</u>
VI. Profit After Tax		<u>2,696</u>
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,696
Dividend paid		
H Ltd.	1,200	
S Ltd.	<u>150</u>	
	1,350	
Less: Share of H Ltd. in dividend of S Ltd.		
80% of ₹ 150 lacs	<u>(120)</u>	<u>(1,230)</u>
Profit to be transferred to consolidated balance sheet		<u>1,466</u>

**Notes to Accounts**

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	<u>1,000</u>	
		6,000	
	Less: Inter-company Sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	<u>(10)</u>	5,865
2.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	<u>200</u>	
		1,200	
	Less: Unrealized profits ₹ 24 lacs × $\frac{20}{120}$	<u>(4)</u>	<u>1,196</u>
			<u>7,061</u>
3.	Cost of Material purchased/consumed		
	H Ltd.	800	
	S Ltd.	<u>200</u>	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	<u>(120)</u>	880
	Direct Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	<u>300</u>
			<u>1,180</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	

	S Ltd.	<u>150</u>	<u>950</u>
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	
		300	
	Less: Consultancy fees received by H Ltd. from S Ltd.	<u>(5)</u>	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	<u>50</u>	
		250	
	Less: Commission received from S Ltd. from H Ltd.	<u>(10)</u>	<u>240</u>
			<u>535</u>
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	<u>200</u>	<u>1,400</u>

**(b) 1. Capital Employed at the end of each year**

	31.3.2015 ₹	31.3.2016 ₹	31.3.2017 ₹
Goodwill	10,00,000	8,00,000	6,00,000
Building and Machinery (Revaluation)	18,00,000	20,00,000	22,00,000
Inventory (Revalued)	12,00,000	14,00,000	16,00,000
Trade Receivables	20,000	1,60,000	4,40,000
Bank Balance	<u>1,20,000</u>	<u>2,00,000</u>	<u>4,00,000</u>
Total Assets	41,40,000	45,60,000	52,40,000
Less: Trade Payables	<u>(6,00,000)</u>	<u>(8,00,000)</u>	<u>(10,00,000)</u>
Closing Capital	35,40,000	37,60,000	42,40,000
Add: Opening Capital	<u>36,60,000</u>	<u>35,40,000</u>	<u>37,60,000</u>
Total	<u>72,00,000</u>	<u>73,00,000</u>	<u>80,00,000</u>
Average Capital	36,00,000	36,50,000	40,00,000

Since the goodwill has been purchased, it is taken as a part of Capital employed.

2. Valuation of Goodwill

(i) Future Maintainable Profit	31.3.2015	31.3.2016	31.3.2017
Net Profit as given	4,20,000	6,20,000	8,20,000
Less: Opening Balance	(1,20,000)	(1,40,000)	(1,60,000)
Adjustment for Valuation of Opening Inventory	-	(2,00,000)	(2,00,000)
Add: Adjustment for Valuation of closing inventory	2,00,000	2,00,000	2,00,000
Goodwill written off	-	2,00,000	2,00,000
Transferred to General Reserve	<u>2,00,000</u>	<u>2,00,000</u>	<u>2,00,000</u>
Future Maintainable Profit	7,00,000	8,80,000	10,60,000
Less: 12.50% Normal Return	<u>(4,50,000)</u>	<u>(4,56,250)</u>	<u>(5,00,000)</u>
(ii) Super Profit	2,50,000	4,23,750	5,60,000

(iii) Average Super Profit = ₹ (2,50,000+4,23,750+5,60,000) ÷ 3 = ₹ 4,11,250

(iv) Value of Goodwill at five years' purchase = ₹ 4,11,250 × 5 = ₹ 20,56,250.

6. (a) Journal Entries in the books of company

Date	Particulars	Dr. ₹	Cr. ₹	
1-3-X2 to 31-3-X2	Bank A/c Employees compensation expenses A/c To Equity Share Capital A/c To Securities Premium A/c (Being allotment to employees 4,800 shares of ₹ 10 each at a premium of ₹ 130 at an exercise price of ₹ 50 each)	Dr. Dr.	2,40,000 4,32,000	48,000 6,24,000
31-3-X2	Profit and Loss account To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	Dr.	4,32,000	4,32,000

Working Note:

- Employee Compensation Expenses = Discount between Market Price and option price = ₹ 140 – ₹ 50 = ₹ 90 per share = ₹ 90 × 4,800 = ₹ 4,32,000/- in total.
- The Employees Compensation Expense is transferred to Securities Premium Account.
- Securities Premium Account = ₹ 50 – ₹ 10 = ₹ 40 per share + ₹ 90 per share on account of discount of option price over market price = ₹ 130 per share = ₹ 130 × 4,800 = ₹ 6,24,000/- in total.

(b) 'Non-performing asset' means:

- an asset, in respect of which, interest has remained overdue for a period of six months or more;
- a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
- a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
- a bill which remains overdue for a period of six months or more;
- the interest in respect of a debt or the income on receivables under the head 'other current

assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

**Note:** As per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the above six months criteria for the assets covered under (a) to (f) is 4 months for the financial year ending March 31, 2017; and from next year ending March 31, 2018 and thereafter it will be 3 months.

- (g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

**Note:** The above twelve months criteria for the assets covered under (g) is 6 months for the financial year ending March 31, 2017 and from next year ending March 31, 2018 and thereafter it will be 3 months.

- (h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset

**(c) Presentation of MAT credit in the financial statements:**

**Balance Sheet:** Where a company recognizes MAT credit as an asset on the basis of the considerations specified in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961, the same should be presented under the head 'Loans and Advances'\* since, there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in paragraph 11 of the Guidance Note.

**Profit and Loss Account:** According to explanation given for paragraph 21 of Accounting Standard 22, "Accounting for Taxes on Income" in the context of Section 115JB of the Income-tax Act, 1961, MAT is the current tax. Accordingly, the tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the statement of profit and loss in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in this Guidance Note, the said asset should be created by way of a credit to the statement of profit and loss and presented as a separate line item therein.

**OR**

In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

- (d) Total dividend paid = ₹ 60,000  
Out of post-acquisition profit = ₹ 40,000  
Out of pre-acquisition profit = ₹ 20,000

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\* As per Schedule III to the Companies Act, 2013, it should be presented under the head 'Non-current Assets' sub head 'Long-term Loans and Advances'.

Hence, 2/3rd of dividend received by XYZ will be credited to P & L and 1/3rd will be credited to Investment.

XYZ Ltd.'s share of dividend = ₹ 60,000 X 80% = ₹ 48,000

**In the books of XYZ Ltd.**

	₹	₹
Bank A/c <span style="float: right;">Dr.</span>	48,000	
To Profit & Loss A/c		32,000
To Investments in ABC Ltd.		16,000
(Dividend received from ABC Ltd. 1/3 credited to investment A/c being out of capital profits – as explained above)		
<i>Goodwill on Consolidation:</i>		₹
Cost of shares less dividend out of capital profits		2,64,000
Less: Face value of capital i.e. 80% of capital	1,60,000	
Share of capital profits [1,20,000-20,000 (dividend portion out of pre-acquisition profits)] X 80 %	80,000	<u>2,40,000</u>
Goodwill		24,000
Minority interest on:		64,000
1st January, 2016: 20% of ₹ 3,20,000 [2,00,000 + 1,20,000]		
31 <sup>st</sup> December, 2016: 20% of ₹ 3,00,000 [2,00,000 + 1,20,000 + 40,000 – 60,000]		60,000