# MOCK TEST PAPER 1

## INTERMEDIATE: GROUP – II

## PAPER – 5: ADVANCED ACCOUNTING

**1. (a) (i)** According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Arnav a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2020.

**(ii)** As per AS 18, transactions of company with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

**(b)** As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished. In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is published and hence revenue is recognized on that date. In this case, 15.03.2020 is the date of publication of the magazine. Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2020. The terms of payment are not relevant for considering the date on which revenue is to be recognized. Since, the revenue of ₹ 3,00,000 will be recognised in the March, 2020, ₹ 60,000 will be treated as amount due from advertisers as on 31.03.2020 and ₹ 2,40,000 will be treated as payment received against the sale. However, if the publication is delayed till 02.04.2020 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized in the year ended 31.03.2020 after the magazine is published on 02.04.2020**.** The amount received from sale of advertising space on 10.03.2020 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2020.

**(c)**

| (i) | **Loss for the year ended, 31st March, 2021** | *(₹ in lakhs)* |
|---|---|---|
| | Amount of foreseeable loss | |
| | Total cost of construction (6,250 + 1,250 + 8,750) | 16,250 |
| | *Less*: Total contract price | (12,000) |
| | Total foreseeable loss to be recognised as expense | 4,250 |

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Loss for the year ended, 31st March, 2021 amounting ₹ 4,250 will be recognized.

| (ii) | **Contract work-in-progress as on 31.3.21** | *(₹ in lakhs)* |
|---|---|---|
| | Contract work-in-progress i.e. cost incurred to date are ₹ 7,500 lakhs: | |
| | Work certified | 6,250 |
| | Work not certified | 1,250 |
| | | 7,500 |

**(iii) Proportion of total contract value recognised as revenue**

Cost incurred till 31.3.21 is 46.15% (7,500/16,250 × 100) of total costs of construction.

Proportion of total contract value recognised as revenue:

46.15% of ₹ 12,000 lakhs = ₹ 5,538 lakhs

**(iv) Amount due from/to customers at year end**

(Contract costs + Recognised profits – Recognised Losses) – (Progress payments received + Progress payments to be received)

= [ (7,500 + Nil – 4,250) – (5,500 + 1,500)] ₹ in lakhs = [3,250 – 7,000] ₹ in lakhs

Amount due to customers = ₹ 3,750 lakhs

**(d)** The entity amortised ₹ 48,00,000 per annum for the first two years i.e. ₹ 96,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

| Year | Net cash flows (₹) | Amortization Ratio | Amortization Amount (₹) |
|---|---|---|---|
| I | - | 0.20 | 48,00,000 |
| II | - | 0.20 | 48,00,000 |
| III | 36,00,000 | 0.180 | 25,92,000 |
| IV | 46,00,000 | 0.230 | 33,12,000 |
| V | 44,00,000 | 0.220 | 31,68,000 |
| VI | 40,00,000 | 0.200 | 28,80,000 |
| VII | 34,00,000 | 0.170 | 24,48,000 |
| Total | 2,00,00,000 | 1.000 | 2,40,00,000 |

It may be seen from above that from third year onwards, the balance of carrying amount ₹ 1,44,00,000 has been amortized in the ratio of net cash flows arising from the product.

**2. (a) Statement showing distribution of cash amongst the partners**

| | *Creditors* | *B's Loan* | *A* | *B* | *C* |
|---|---|---|---|---|---|
| 2020 | ₹ | ₹ | ₹ | ₹ | ₹ |
| June 30 | | | | | |
| Balance b/d | 30,000 | 10,000 | 76,000 | 48,000 | 36,000 |
| Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400) | 5,400 | - | - | - | - |
| Balances unpaid | 24,600 | 10,000 | 76,000 | 48,000 | 36,000 |
| July 5 | | | | | |
| 1st Instalment of ₹ 25,200 | 23,600 | 1,600 | - | - | - |
| Discount received on full settlement | 1,000 | 8,400 | 76,000 | 48,000 | 36,000 |
| *Less*: Transferred to Realization A/c | 1,000 | | | | |
| | Nil | | | | |

| | | | | | |
|---|---|---|---|---|---|
| August 30 | | | | | |
| 2nd instalment of ₹ 60,000 (W.N. 2) | | 8,400 | 32,640 | 4,640 | 14,320 |
| Balance unpaid | | Nil | 43,360 | 43,360 | 21,680 |
| September 15 | | | | | |
| Amount realised ₹ 80,000 | | | | | |
| *Add*: Balance out | | | | | |
| of the Provision for | | | | | |
| Expenses A/c 1,400 | | | | | |
| 81,400 | | | 32,560 | 32,560 | 16,280 |
| Amount unpaid being loss on Realization in the ratio of 2 : 2 : 1 | | | 10,800 | 10,800 | 5,400 |

**Working Notes:**

1. **Highest relative capital basis**

| | | A | B | C |
|---|---|---|---|---|
| | | ₹ | ₹ | ₹ |
| 1. | Present Capitals | 76,000 | 48,000 | 36,000 |
| 2. | Profit-sharing ratio | 2 | 2 | 1 |
| 3 | Capital per unit of Profit share (1 ÷ 2) | 38,000 | 24,000 | 36,000 |
| 4. | Proportionate capitals taking B, whose capital is the least, as the basis | 48,000 | 48,000 | 24,000 |
| 5. | Excess capital (1-4) | 28,000 | Nil | 12,000 |
| 6. | Profit-sharing ratio | 2 | - | 1 |
| 7. | Excess capital per unit of Profit share (5 ÷ 6) | 14,000 | | 12,000 |
| 8. | Proportionate capitals as between A and C taking C capital as the basis | 24,000 | - | 12,000 |
| 9. | Excess of A's Capital over C's Excess capital (5-8) | 4,000 | - | - |
| 10. | Balance of Excess capital (5-9) | 24,000 | | 12,000 |
| 11. | Distribution sequence: | | | |
| | First ₹ 4,000 (2 : 0 : 0) | 4,000 | - | - |
| | Next ₹ 36,000 (2 : 0 : 1) | 24,000 | - | 12,000 |
| | Over ₹ 40,000 (2 : 2 : 1) | | | |

2. **Distribution of Second instalment**

| | Creditors | A | B | C |
|---|---|---|---|---|
| First ₹ 8,400 | 8,400 | - | - | - |
| Next ₹ 4,000 (2 : 0 : 0) | | 4,000 | - | - |
| Next ₹ 36,000 (2 : 0 : 1) | | 24,000 | - | 12,000 |
| Balance ₹ 11,600 (2 : 2 : 1) | | 4,640 | 4,640 | 2,320 |
| 60,000 | 8,400 | 32,640 | 4,640 | 14,320 |

**(b)** Garner vs. Murray rule: When a partner is unable to pay his debt due to the firm, he is said to be insolvent and the share of loss is to be borne by other solvent partners in accordance with the decision held in the English case of Garner vs. Murray. According to this decision, normal loss on realisation of assets is to be brought in cash by all partners (including insolvent partner) in the profit sharing ratio but a loss due to insolvency of a partner has to be borne by the solvent partners in their capital ratio. In order to calculate the capital ratio, no adjustment will be made in case of fixed capitals. However, in case of fluctuating capitals, ratio should be calculated on the basis of adjusted capital before considering profit or loss on realization at the time of dissolution.

Non-Applicability of Garner vs Murray rule:

1. When the solvent partner has a debit balance in the capital account.

   Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.

2. When the firm has only two partners.

3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.

4. When all the partners of the firm are insolvent.

**(c)** This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 2020, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales). Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 2020, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 2020.

**3. (a) (i)** **In the Books of Beta Ltd.**

**Realisation Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Sundry Assets | 15,96,000 | By Retirement Gratuity Fund | 56,000 |
| To Preference Shareholders (Premium on Redemption) | 28,000 | By Trade payables (Purchase Consideration) | 2,24,000 |
| To Equity Shareholders (Profit on Realisation) | 1,40,000 | By Alex Ltd. | 14,84,000 |
| | 17,64,000 | | 17,64,000 |

**Equity Shareholders Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Equity Shares of Alex Ltd. | 11,76,000 | By Share Capital | 8,40,000 |
| | | By General Reserve | 1,96,000 |
| | | By Realisation Account (Profit on Realisation) | 1,40,000 |
| | 11,76,000 | | 11,76,000 |

**Preference Shareholders Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To 8% Preference Shares of Alex Ltd. | 3,08,000 | By Preference Share Capital | 2,80,000 |
| | | By Realisation Account (Premium on Redemption of Preference Shares) | 28,000 |
| | 3,08,000 | | 3,08,000 |

**Alex Ltd. Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Realisation Account | 14,84,000 | By 8% Preference Shares | 3,08,000 |
| | | By Equity Shares | 11,76,000 |
| | 14,84,000 | | 14,84,000 |

**(ii) In the Books of Alex Ltd.**

**Journal Entries**

| | | *Dr.* | *Cr.* |
|---|---|---|---|
| | | ₹ | ₹ |
| Business Purchase A/c | Dr. | 14,84,000 | |
| To Liquidators of Beta Ltd. Account | | | 14,84,000 |
| (Being business of Beta Ltd. taken over) | | | |
| Goodwill Account | Dr. | 1,40,000 | |
| Building Account | Dr. | 4,20,000 | |
| Machinery Account | Dr. | 4,48,000 | |
| Inventory Account | Dr. | 4,41,000 | |
| Trade receivables Account | Dr. | 2,80,000 | |
| Bank Account | Dr. | 56,000 | |
| To Retirement Gratuity Fund Account | | | 56,000 |
| To Trade payables Account | | | 2,24,000 |
| To Provision for Doubtful Debts Account | | | 21,000 |
| To Business Purchase A/c | | | 14,84,000 |
| (Being Assets and Liabilities taken over as per agreed valuation). | | | |
| Liquidators of Beta Ltd. A/c | Dr. | 14,84,000 | |
| To 8% Preference Share Capital A/c | | | 3,08,000 |
| To Equity Share Capital A/c | | | 11,20,000 |
| To Securities Premium A/c | | | 56,000 |
| (Being Purchase Consideration satisfied as above). | | | |

(iii) **Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2020**

| | | *Particulars* | *Notes* | ₹ |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | A | Share capital | 1 | 45,08,000 |
| | B | Reserves and Surplus | 2 | 2,52,000 |
| **2** | | **Non-current liabilities** | | |
| | A | Long-term provisions | | 1,96,000 |
| **3** | | **Current liabilities** | | |
| | A | Trade Payables | | 5,88,000 |
| | B | Short term provision | | 21,000 |
| | | **Total** | | 55,65,000 |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | A | Property, Plant and Equipment (PPE) | 3 | 31,08,000 |
| | B | Intangible assets | | 2,80,000 |
| **2** | | **Current assets** | | |
| | A | Inventories | | 11,41,000 |
| | B | Trade receivables | | 8,40,000 |
| | C | Cash and cash equivalents | | 1,96,000 |
| | | **Total** | | 55,65,000 |

**Notes to accounts:**

| | | ₹ |
|---|---|---|
| **1** | **Share Capital** | |
| | Equity share capital | |
| | 3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash) | 39,20,000 |
| | Preference share capital | |
| | 5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash) | 5,88,000 |
| | **Total** | 45,08,000 |
| **2** | **Reserves and Surplus** | |
| | Securities Premium | 56,000 |
| | General Reserve | 1,96,000 |
| | **Total** | 2,52,000 |
| **3** | **PPE** | |
| | Buildings | 12,60,000 |
| | Machinery | 18,48,000 |
| | **Total** | 31,08,000 |

**Working Notes:**

| *Purchase Consideration:* | ₹ |
|---|---|
| Goodwill | 1,40,000 |
| Building | 4,20,000 |
| Machinery | 4,48,000 |
| Inventory | 4,41,000 |
| Trade receivables | 2,59,000 |
| Cash at Bank | 56,000 |
| *Less*: Liabilities: | |
| Retirement Gratuity | (56,000) |
| Trade payables | (2,24,000) |
| Net Assets/ Purchase Consideration | 14,84,000 |
| To be satisfied as under: | |
| Preference Shareholders of Beta Ltd. | 2,80,000 |
| *Add*: 10% Premium | 28,000 |
| Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd. | 3,08,000 |
| Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium | 11,76,000 |
| Total | 14,84,000 |

**(b)** Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company and the business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

**4. (a)** **In the books of Alpha Limited**

**Journal Entries**

| *Date 2021* | *Particulars* | | *Dr. (₹ in lakhs)* | *Cr.* |
|---|---|---|---|---|
| April 1 | Bank A/c | Dr. | 150 | |

| | | | |
|---|---|---|---|
| | To Investment A/c | | 148 |
| | To Profit on sale of investment | | 2 |
| | (Being investment sold on profit) | | |
| April 10 | Equity share capital A/c Dr. | 600 | |
| | Securities premium A/c Dr. | 300 | |
| | To Equity shares buy back A/c | | 900 |
| | (Being the amount due to equity shareholders on buy back) | | |
| | Equity shares buy back A/c Dr. | 900 | |
| | To Bank A/c | | 900 |
| | (Being the payment made on account of buy back of ₹ 60 Lakh Equity Shares) | | |
| April 10 | General reserve A/c Dr. | 530 | |
| | Profit and Loss A/c Dr. | 70 | |
| | To Capital redemption reserve (CRR) A/c | | 600 |
| | (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) | | |
| April 30 | Capital redemption reserve A/c Dr. | 450 | |
| | To Bonus shares A/c (W.N.1) | | 450 |
| | (Being the utilization of capital redemption reserve to issue bonus shares) | | |
| | Bonus shares A/c Dr. | 450 | |
| | To Equity share capital A/c | | 450 |
| | (Being issue of one bonus equity share for every four equity shares held) | | |
| | Profit on sale of Investment Dr. | 2 | |
| | To Profit and Loss A/c | | 2 |
| | (Profit on sale transfer to Profit and Loss A/c) | | |

**Note:** For transferring amount equal to nominal value of buy back shares from free reserves to capital redemption reserve account, the amount of ₹ 340 lakhs from P & L A/c and the balance from general reserve may also be utilized. The combination of different set of amounts (from General Reserve and Profit and Loss Account) aggregating ₹ 600 lakhs may also be considered for the purpose of transfer to CRR.

**Balance Sheet (After buy back and issue of bonus shares)**

| *Particulars* | *Note No* | *Amount (₹ in Lakhs)* |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 2,250 |

| | | |
|---|---|---|
| (b) Reserves and Surplus | 2 | 872 |
| (2) Non-Current Liabilities | | |
| (a) Long-term borrowings - 12% Debentures | | 1,500 |
| (3) Current Liabilities | | |
| (a) Trade payables | | 1,490 |
| (b) Other current liabilities | | 390 |
| Total | | 6,502 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, plant and equipment | | 4,052 |
| (2) Current assets | | |
| (a) Current investments | | |
| (b) Inventory | | 1,200 |
| (c) Trade receivables | | 520 |
| (d) Cash and cash equivalents (W.N. 2) | | 730 |
| Total | | 6,502 |

**Notes to Accounts**

| | | | | |
|---|---|---|---|---|
| | | | | ₹ In lakhs |
| 1. | Share Capital | | | |
| | Equity share capital (225 lakh fully paid up shares of ₹ 10 each) | | | 2,250 |
| 2. | Reserves and Surplus | | | |
| | General Reserve | 530 | | |
| | *Less*: Transfer to CRR | (530) | - | |
| | Capital Redemption Reserve | 400 | | |
| | *Add*: Transfer due to buy-back of shares from P/L | 70 | | |
| | *Add*: Transfer due to buy-back of shares from Gen. res. | 530 | | |
| | *Less*: Utilisation for issue of bonus shares | (450) | 550 | |
| | Securities premium | 350 | | |
| | *Less*: Adjustment for premium paid on buy back | (300) | 50 | |
| | Profit & Loss A/c | 340 | | |
| | Add: Profit on sale of investment | 2 | | |
| | *Less*: Transfer to CRR | (70) | 272 | 872 |

**Working Notes:**

1. **Amount of equity share capital** = 2,400 - 600 (buyback) + 450 (Bonus shares)
= 2,250

2. **Cash at bank after issue of bonus shares**

| | *₹ in lakhs* |
|---|---|
| Cash balance as on 1st April, 2021 | 1480 |
| *Add:* Sale of investments | 150 |
| | 1630 |
| *Less:* Payment for buy back of shares | (900) |
| | 730 |

**(b) Statement showing computation of 'Net Owned Fund'**

| | | ₹ in 000 |
|---|---|---|
| Paid up Equity Capital | | 400 |
| Free Reserves | | 2,000 |
| | | 2,400 |
| Less: Deferred expenditure | | (800) |
| | A | 1,600 |
| Investments | | |
| In shares of subsidiaries and group companies | | 400 |
| In debentures of subsidiaries and group companies | | 400 |
| | B | 800 |
| 10% of A | | 160 |
| Excess of Investment over 10% of A (800-160) | C | 640 |
| Net Owned Fund [(A) - (C)] (1,600-640) | | 960 |

**(c)**

| | **Case 1** | **Case 2** | **Case 3** | **Case 4** |
|---|---|---|---|---|
| | **₹** | **₹** | **₹** | **₹** |
| Sanctioned limit | 50,00,000 | 60,00,000 | 55,00,000 | 45,00,000 |
| Drawing power | 44,00,000 | 56,00,000 | 50,00,000 | 42,00,000 |
| Amount outstanding continuously from 1.01.2021 to 31.03.2021 | 40,00,000 | 48,00,000 | 56,00,000 | 30,00,000 |
| Total interest debited | 3,20,000 | 3,84,000 | 4,48,000 | 2,40,000 |
| Total credits | 1,80,000 | - | 4,48,000 | 320,000 |
| Is credit in the account is sufficient to cover the interest debited during the period or amount is not 'overdue' for a continuous period of 90 days. | No | No | The credit in the account is sufficient to cover the interest debited but the amount outstanding is continuously in excess of the | Yes |

| | | | | |
|---|---|---|---|---|
| | NPA | NPA | sanctioned drawing power for a continuous period of 90 days. NPA | NOT NPA |

5. (a) **Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.**

**as at 31st March, 2021**

| *Particulars* | *Note No.* | *(₹)* |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | | 12,00,000 |
| (1,20,000 equity shares of ₹ 10 each) | | |
| (b) Reserves and Surplus | 1 | 8,16,200 |
| (2) Minority Interest (W.N.4) | | 99,300 |
| (3) Current Liabilities | | |
| (a) Trade Payables | 2 | 4,10,000 |
| Total | | 25,25,500 |
| II. Assets | | |
| (1) Non-current assets | | |
| (i) Property, plant and equipment | 3 | 13,10,500 |
| (ii) Intangible assets | 4 | 24,000 |
| (2) Current assets | | |
| (i) Inventories | 5 | 3,25,000 |
| (ii) Trade Receivables | 6 | 6,70,000 |
| (iii) Cash at Bank | 7 | 1,96,000 |
| Total | | 25,25,500 |

**Notes to Accounts**

| | | | | ₹ |
|---|---|---|---|---|
| 1. | Reserves and Surplus | | | |
| | General Reserves | | 4,35,000 | |
| | *Add:* 80% share of S Ltd.'s post-acquisition reserves (W.N.3) | | 84,000 | 5,19,000 |
| | Profit and Loss Account | | 2,80,000 | |
| | *Add:* 80% share of S Ltd.'s post-acquisition profits (W.N.3) | 21,200 | | |
| | *Less:* Unrealised gain | (4,000) | 17,200 | 2,97,200 |
| | | | | 8,16,200 |
| 2. | Trade Payables | | | |
| | H Ltd. | | 3,22,000 | |

| | | | | |
|---|---|---|---|---|
| | S Ltd. | | 1,23,000 | |
| | *Less:* Mutual transaction | | (35,000) | 4,10,000 |
| 3. | Property, plant and equipment | | | |
| | Machinery | | | |
| | H Ltd. | | 6,40,000 | |
| | S Ltd. | 2,00,000 | | |
| | *Add:* Appreciation | 1,00,000 | | |
| | | 3,00,000 | | |
| | *Less:* Depreciation | (30,000) | 2,70,000 | 9,10,000 |
| | Furniture | | | |
| | H. Ltd. | | 3,75,000 | |
| | S Ltd. | 40,000 | | |
| | *Less:* Decrease in value | (10,000) | | |
| | | 30,000 | | |
| | *Less*: Depreciation | (4,500) | 25,500 | 4,00,500 |
| | | | | 13,10,500 |
| 4. | Intangible assets | | | |
| | Goodwill [WN 5] | | | 24,000 |
| 5. | Inventories | | | |
| | H Ltd. | | 2,68,000 | |
| | S Ltd. | | 62,000 | 3,30,000 |
| | *Less:* Inventory reserve | | | (5,000) |
| | | | | 3,25,000 |
| 6. | Trade Receivables | | | |
| | H Ltd. | | 4,70,000 | |
| | S Ltd. | | 2,35,000 | |
| | | | | 7,05,000 |
| | *Less:* Mutual transaction | | | (35,000) |
| | | | | 6,70,000 |
| 7. | Cash and Bank | | | |
| | H Ltd. | | 1,64,000 | |
| | S Ltd. | | 32,000 | 1,96,000 |

**Working Notes:**

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2020**

| | ₹ |
|---|---|
| ***Machinery*** | |
| Revaluation as on 1.4.2020 | 3,00,000 |
| Less: Book value as on 1.4.2020 | (2,00,000) |
| Profit on revaluation | 1,00,000 |

| | |
|---|---|
| ***Furniture*** | |
| Revaluation as on 1.4.2020 | 30,000 |
| Less: Book value as on 1.4.2020 | (40,000) |
| Loss on revaluation | (10,000) |

**2. Calculation of short/excess depreciation**

| | ***Machinery*** | ***Furniture*** |
|---|---|---|
| Upward/ (Downward) Revaluation | 1,00,000 | (10,000) |
| Rate of depreciation | 10% p.a. | 15% p.a. |
| Difference [(short)/excess] | (10,000) | 1,500 |

**3. Analysis of reserves and profits of S Ltd. as on 31.03.2021**

| | *Pre-acquisition profit upto 1.4.2020* | *Post-acquisition profits (1.4.2020 – 31.3.2021)* | |
|---|---|---|---|
| | ***(Capital profits)*** | ***General Reserve*** | ***Profit and loss account*** |
| General reserve as on 31.3.2021 | 50,000 | 1,05,000 | |
| Profit and loss account as on 31.3.2021 | 30,000 | | 35,000 |
| Upward Revaluation of machinery as on 1.4.2020 | 1,00,000 | | |
| Downward Revaluation of Furniture as on 1.4.2020 | (10,000) | | |
| Short depreciation on machinery | | | (10,000) |
| Excess depreciation on furniture | | | 1,500 |
| Total | 1,70,000 | 1,05,000 | 26,500 |

**4. Minority Interest**

| | ₹ |
|---|---|
| Paid-up value of (2,00,000 x 20%) | 40,000 |
| *Add:* 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)] | 16,000 |
| 20% share of profit on revaluation | 18,000 |
| 20% share of post-acquisition reserves | 21,000 |
| 20% share of post-acquisition profit | 5,300 |
| | 1,00,300 |
| Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20% | (1,000) |
| | 99,300 |

5. **Cost of Control or Goodwill**

| | | |
|---|---|---|
| Cost of Investment | | 3,20,000 |
| Less: Paid-up value of 80% shares | 1,60,000 | |
| 80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹72,000) | 1,36,000 | (2,96,000) |
| Cost of control or Goodwill | | 24,000 |

**(b) In the books of Preeti Limited**

**Journal Entries**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| (i) | Equity Share Capital (₹ 100) A/c | Dr. | 20,00,000 | |
| | To Share Surrender A/c | | | 10,00,000 |
| | To Equity Share Capital (₹ 10) A/c | | | 10,00,000 |
| | (Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme) | | | |
| (ii) | 15% Debentures A/c | Dr. | 3,00,000 | |
| | Interest payable A/c (proportionate 50%) | Dr. | 45,000 | |
| | To Reconstruction A/c | | | 3,45,000 |
| | (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme) | | | |
| (iii) | Trade payables A/c | Dr. | 1,04,000 | |
| | To Reconstruction A/c | | | 1,04,000 |
| | (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount) | | | |
| (iv) | Share Surrender A/c | Dr. | 10,00,000 | |
| | To 10% Preference Share Capital A/c | | | 2,00,000 |
| | To Equity Share Capital A/c | | | 78,000 |
| | To Reconstruction A/c | | | 7,22,000 |
| | (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account) | | | |
| (v) | Reconstruction A/c | Dr. | 11,71,000 | |
| | To Profit & Loss A/c | | | 11,60,000 |

| | | | |
|---|---|---|---|
| | To Capital Reserve A/c<br>(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account) | | 11,000 |

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

**6. (a)** Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{21{,}96{,}000}{4{,}57{,}500 \text{ Shares (as per working note)}} = ₹\ 4.80 \text{ per share}$$

**Working Note:**

**Calculation of weighted average number of equity shares**

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

| *Date* | *No. of equity shares* | *Amount paid per share* | *Weighted average no. of equity shares* |
|---|---|---|---|
| | ₹ | ₹ | ₹ |
| 1.4.2020 | 6,00,000 | 5 | 6,00,000 x 5/10 x 5/12 = 1,25,000 |
| 1.9.2020 | 5,40,000 | 10 | 5,40,000 x 7/12 = 3,15,000 |
| 1.9.2020 | 60,000 | 5 | 60,000 x 5/10 x 7/12 = 17,500 |
| Total weighted average equity shares | | | 4,57,500 |

**(b) (i) Non-adjusting event:** Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 20th April after the balance sheet date. As per AS 4, 'Contingencies' 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. Hence, it will have no effect on financial statement and will be a non-adjusting event.

**(ii) Adjusting event:** In the given case, terms and conditions for acquisition of business were finalised before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2020. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2020.

**(iii) Non-adjusting event:** Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.

In the given case, as the theft of cash was detected on 16th July, 2020 ie after approval of financial statements, no adjustment is required.

**(iv)** **Non-adjusting event:** 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. In the given case, sale of immovable property was under proposal stage (negotiations only started) on the balance sheet date, and was not finalized. Therefore, adjustment to assets for sale of immovable property is not necessary in the financial statements for the year ended 31st March, 2020. Disclosure may be given in Report of approving Authority.

**(v)** **Non-adjusting event:** 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. The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding fire and loss, being completely insured may be given in the report of approving authority.

**OR**

As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision. It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

**(c)** **Amount receivable from/returnable to Equity Shareholders**

| | |
|---|---|
| Total equity capital - paid up | ₹ 1,48,000 |
| *Less*: Balance available after payment to unsecured and preference shares | |
| (3,50,000 — 2,42,500) | ₹ (1,07,500) |
| Loss to be born by 2,000 equity shares | ₹ 40,500 |
| Loss per share | ₹ 20.25 |
| Hence, | |
| Amount refunded on ₹ 65 paid share | 65 - 20.25 per share = ₹ 44.75 |
| Amount refunded on ₹ 80 paid share | 80 - 20.25 per share= ₹ 59.75 |

**Working note:**

**Liquidator's Statement of Account**

| | ₹ | | | ₹ |
|---|---|---|---|---|
| To Assets realized | 3,50,000 | By Liquidation Expenses | | 8,000 |
| | | By Secured bank loan | | 60,000 |

| | | | | |
|---|---|---|---|---|
| | | By Preferential creditors (salary of 3 clerks at ₹ 500 per month for three months) | | 4,500 |
| | | By Unsecured creditors | | 70,000 |
| | | By Preference Shareholders | | 1,00,000 |
| | | | | 2,42,500 |
| | | By Equity Shareholders | | |
| | | ₹ 59.75 on 1,200 shares | | 71,700 |
| | | ₹ 44.75 on 800 shares | | 35,800 |
| | 3,50,000 | | | 3,50,000 |

**(d) Journal Entries in the books of Suvidhi Ltd.**

| *Date* | *Particulars* | | *Dr. (₹)* | *Cr. (₹)* |
|---|---|---|---|---|
| 31.3.20 | Bank A/c (60,000 shares x ₹ 30) | Dr. | 18,00,000 | |
| | Employees stock compensation expense A/c | Dr. | 4,80,000 | |
| | To Share Capital A/c (60,000 shares x ₹ 10) | | | 6,00,000 |
| | To Securities Premium (60,000 shares x ₹ 28) | | | 16,80,000 |
| | (Being shares issued under ESOP @ ₹ 30 to 1,200 employees) | | | |
| | Profit & Loss A/c | Dr. | 4,80,000 | |
| | To Employees stock compensation expense A/c | | | 4,80,000 |
| | (Being Employees stock compensation expense transferred to Profit & Loss A/c) | | | |

**Working Note:**

Fair value of an option = ₹ 38 – ₹ 30 = ₹ 8

Number of shares issued = 1,200 employees x 50 shares = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2019-2020 = 60,000 shares x ₹ 8 = ₹ 4,80,000

Vesting period = 1 year

Expenses recognized in 2019-2020 = ₹ 4,80,000