CONTENTS

INTER C.A. - ADVANCED ACCOUNTING

CHAPTER - 1 ACCOUNTING STANDARDS

PART A : THEORY SECTION

AS 7 : CONSTRUCTION CONTRACTS

1. AS 7 addresses the issue of allocation of revenue & costs attributable to contract activity to the accounting period in which construction work is performed.
2. A construction contract is defined as a contract specifically negotiated for the construction of an asset or combination of assets that are closely inter-related or inter-dependent in terms of their design, technology & function or their ultimate purpose or use e.g. :- contract for construction of a bridge, building, dam, pipeline, road etc. Construction contracts also include contract for rendering services relating to construction of assets (e.g. :- service of architect) & contracts for destruction or restoration of asset & restoration of environment following demolition of asset.
3. Construction contracts are of the following 2 types :
   a. Fixed price construction contracts : are those in which parties agree to a fixed price or fixed rate per unit & in some cases subject to escalation clause
   b. Cost plus construction contracts : are those which involves reimbursement of defined costs plus a percentage of such cost or a fixed fee.

   Cost plus contracts involving a maximum ceiling would bear the characteristics of both the above types.
4. Profit / Loss is to be calculated for each contract separately but when a group of contracts have been negotiated as a single package with an overall profit margin then all such contracts put together would be treated as a single contract.
5. Construction contracts may provide for construction of additional asset at the option of the customer. The construction of additional asset should be treated as a separate contract if the asset differs significantly from the asset covered by the original contract & the price of the additional asset is independent of the original contract price.
6. To calculate the contract profit/loss, contract revenue & costs must be calculated. Contract revenue consists of :
   a. Agreed price
   b. Claims arising due to escalation clause
   c. Claims for re-imbursement of costs not included in the contract price
   d. Increase or decrease in revenue due to change or variation in scope of work to be performed
   e. Incentives (additional amounts paid if performance exceeds agreed targets)

   Contract costs consists of the following :
   a. **Direct or specific costs :** Direct materials, direct labour & direct expenses
   b. **Allocable costs :** Insurance, design & technical assistance expenditure etc. specifically chargeable under the contract

Following costs are excluded from contract costs :

a. General administration cost
b. Selling costs
c. R & D costs
d. Depreciation on idle plant & equipment

7. Costs incurred in securing contracts & pre-contract costs are included in the contract costs if it is probable that contract will be obtained. Otherwise they should be charged to the General P & L A/c.

8. Interest cost can be included in contract costs if the asset is a qualifying asset as per AS – 16.

9. **Recognition of contract cost & revenue :** When the outcome of the contract can be estimated reliably then contract revenue & related costs are recognized as revenue & costs by reference to the stage of completion of the contract activity at the Balance Sheet date. This is also called Percentage Completion Method (PCM). The stage of completion can be determined in a variety of ways :

   a. **Cost to cost method :** Compare the total cost incurred to date with the total estimated cost of the contract. Therefore, % of completion = [cost incurred till date / (cost incurred till date + cost likely to be incurred for completion)] * 100.
   b. Survey of work performed
   c. Completion of a physical proportion of the contract work.

10. Contract revenue recognition = Contract price * % of completion – Revenue recognized earlier

11. When it is probable that total contract costs will exceed total contract revenue, expected loss should be recognized as an expense immediately irrespective of

   a. Whether or not work has commenced
   b. The stage of completion
   c. The amount of profit on other contracts which are not treated as a single contract

12. When the outcome of a contract cannot be reliably estimated then revenue should be recognized only to the extent of costs incurred & of which recovery is possible. Recognition of revenue & expenditure in construction contracts is based on estimates. Changes in estimates in year-to-year are accounted as a change in accounting estimate as per AS 5. This change will neither be a PPI nor an extra-ordinary item.

13. **Disclosure :** An enterprise should disclose the method used to determine the stage of completion & method used to determine contract revenue. In addition to the policy disclosure, the following disclosures are also required :

   a. Amount of contract revenue recognized during the period
   b. Contract cost incurred & recognition of profit
   c. Advance received
   d. Gross amount due to / from customers (Costs Incurred + Recognised Profit - Recognised Losses - Progressive Billing)
   e. Gross amount due to customers (Progressive Billing + Recognised Losses - Recognised Profit - Costs Incurred)
   f. Retentions

AS 9 : REVENUE RECOGNITION

1. Why AS 9?

It is basically concerned with the "timing of recognition" in the statement of Profit and Loss. It lays down criteria for recognition of revenue most suited to preparers of FS of enterprises engaged in varied activities.

2. What is Revenue?

Revenue means the gross inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from sale of goods, from the rendering of services and from the use by others of the resources of the enterprise yielding interest, royalties and dividend.

3. Common elements for recognition of revenue:

To all these three groups aforesaid, there are two common elements. It is imperative to seek answers to two questions.

- No significant uncertainty exists regarding the amount of the consideration that will be derived (MEASURABILITY)
- Are we certain that the amount will be received? (COLLECTABILITY)

NOTE:

a. If Consideration is not measurable

Consideration receivable for sale of goods or for rendering of services should be determinable. When such consideration is not determinable within reasonable limits, revenue recognition will be postponed.

b. If collectability is uncertain

When there is uncertainty about the collection of revenue even at the time when claim is raised recognition must be postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made.

Where there is no uncertainty as to ultimate collection, revenue is recognized at the time of sale or rendering of service even though payments are made by installments.

c. Effect of postponement

When recognition of revenue is postponed due to the effect of uncertainties', the amount is considered as revenue of the period in which it is properly recognized.

d. Uncertainty arises later - make a provision(Do not adjust revenue)

When a transaction was concluded initially, the collectability was certain. Revenue, therefore, stood recognized. Subsequent to sale or rendering of the service, and at a much later date, the collectability of consideration is rendered uncertain. In such a situation, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

4. **Sale of goods:**

Revenue is to be recognized when the following conditions are satisfied:

a .The seller has transferred to the buyer the property in goods for a consideration, OR

b. Significant risks and rewards of ownership have been transferred to the buyer AND

c. No significant uncertainty exists regarding the amount of consideration that will be derived from the sale of goods

5. **Rendering of services**

The Standard prescribes two methods:

a. COMPLETED SERVICE CONTRACT METHOD:

Performance in a service contract may consist of

(i) one single act

(ii) or more than one act, where services not performed are significant enough in relation to all transaction taken as whole. Under such conditions, performance is not deemed complete and service is not chargeable unless all the transactions are completed.

Revenue is recognized only when the SOLE or FINAL act takes place and the service becomes
chargeable.

b. PROPORTIONATE COMPLETION METHOD:

This method - evolved out of accrual concept - is to be applied when performance consists of execution of more than one act. Revenue is to be recognized proportionately by reference to the performance of each act.

Revenue is recognized when EACH independent act takes place and the proportionate service
becomes chargeable.

6. **Other income:**

a. INTEREST:

Revenue must be recognized on time proportion basis.

b. ROYALTIES:

Revenue is recognized on accrual basis in accordance with the terms of relevant agreement.

c. DIVIDENDS:

Revenue is to be recognized only when the owner's right to receive payment is established (When dividends are DECLARED)

EXECEPTION: When interest, royalties and dividends are receivable from other countries which requires forex permission, revenue recognition has to be on CASH BASIS.

AS - 18 : RELATED PARTY DISCLOSURES

1) This standard deals only with related party relationships described in (a) to (e) below :

(a) enterprises that directly, or indirectly through one or more intermediates, control, or are controlled by, or are under common control with, the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries) ;

(b) associates and joint ventures of the reporting enterprise and the investing party or venturer in respect of which the reporting enterprise is an associate or a joint venture ;

(c) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual ;

(d) key management personnel and relatives of such personnel ; and

(e) enterprises over which any person described in (c) or (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the reporting enterprise and enterprises that have a member key management in common with the reporting enterprise.

2) In the context of this statement, the following are deemed not to be related parties:

(a) two companies simply because they have a director in common, notwithstanding paragraph 3(d) or (e) above (unless the director is able to affect the policies of both companies in their manual dealings);

(b) a single customer, supplier, franchiser, distributor, or general agent with whom an enterprise transacts a significant volume of business merely by virtue of the resulting economic dependence ; and

(c) the parties listed below, in the course of their normal dealings with an enterprise by virtue of those dealings (although they may circumscribe the freedom of action of the enterprise or participate in its decision - making process) :

(i) providers of finance ;

(ii) trade unions ;

(iii) public utilities ;

(iv) government departments and government agencies including government sponsored bodies.

3) Exemptions

(a) Related party disclosure requirements as laid down in this Statement do no apply in circumstances where providing such disclosures would conflict with the reporting enterprises duties of confidentiality as specifically required in terms of statute or by any regulator or similar competent authority.

For example, banks are obliged by law to maintain confidentiality in respect of their customer's transactions and this Statement would not override the obligation to preserve the confidentiality of customer's dealings.

(b) Disclosure of transactions between members of group is unnecessary is consolidated financial statement because consolidated financial statements present information about the holding and its subsidiaries as a single reporting enterprise.

(c) No disclosure is required in the financial statements of state - controlled enterprises as regards related party relationships with other state - controlled enterprises and transactions with such enterprises.

4) Definitions

For the purpose of this standard, the following terms are used with the meanings specified:

Related Party - 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.

Related Party Transactions - a transfer of resources or obligations between related parties regardless of whether or not a price is charged.

Control - (a) ownership, directly or indirectly, of more than one half of the voting power of an enterprise, or (b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise, or (c) a substantial interest in voting power and the power to direct, by statute or agreement, the financial and / or operating policies of the enterprise.

Significant Influence - participation in the financial and / or operating policy decisions of an enterprise, but not control of those policies.

An Associate - an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of that party.

A Joint Venture - a contractual arrangement whereby two ore more parties undertake an economic activity which is subject to joint control.

Joint Control - the contractually agreed sharing of power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

Key Management Personnel - those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise.

Relative - in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his / her dealings with the reporting enterprise.

Holding Company - a company having one ore more subsidiaries.

Subsidiary - a company :

(a) in which another company (the holding company) holds, either by itself and / or through one ore more subsidiaries, more than one - half in nominal value of its equity share capital ; or

(b) of which another company (the holding company) controls, either by itself and / or through one or more subsidiaries, the composition of its board of directors.

Fellow subsidiary - a company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

State - Controlled Enterprise - an enterprise which is under the control of the Central Government and / or any State Government(s).

5) For the purpose of this standard, an enterprise is considered to control the composition of-

(i) the board of directors of a company, if it has the power, without the consent or concurrence of any other person, to appoint or remove all or a majority of directors of that company. An enterprise is deemed to have the power to appoint a director if any of the following conditions is satisfied:

(a) a person cannot be appointed as director without the exercise in his favour by that enterprise of such a power as aforesaid ; or

(b) a person's appointment as director follows necessarily from his appointment to a position held by him in that enterprise ; or

(c) the director is nominated by that enterprise; in case that enterprise is a company, the director is nominated by the company / subsidiary thereof.

(ii) the governing body of an enterprise that is not a company, if it has the power, without the consent or the concurrence of any other person, to appoint or remove all or a majority of members of the governing body of that other enterprise. An enterprise is deemed to have the power to appoint a member if any of the following conditions is satisfied : Similar to (a), (b) & (c) above.

6) An enterprise is considered to have a substantial interest in another enterprise if that enterprise owns, directly or indirectly, 20 per cent or more interest in the voting power of the other enterprise. Similarly, an individual is considered to have a substantial interest in an enterprise, if that individual owns, directly or indirectly, 20 per cent or more interest in the voting power of the enterprise.

7) Significant influence may be exercised in several ways, for example, by representation on the board of directors, participation in the policy making process, material inter company transactions, interchange of managerial personnel, or dependence on technical information.

8) Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting enterprise. For example, in the case of a company, the managing director(s), whole time director(s), manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.

9) Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's - length basis between independent parties. However, that presumption may not be valid when related party relationships exist because related parties may enter into transactions which unrelated parties would not enter into.

10) **Disclosure :** Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following :

(i) the name of the transacting related party ;

(ii) a description of the relationship between the parties ;

(iii) a description of the nature of transactions ;

(iv) volume of the transactions either as an amount or as an appropriate proportion ;

(v) any other elements of the related party transactions necessary for an under standing of the financial statements ;

(vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date ; and

(vii) amount written off or written back in the period in respect of debts due from or to related parties.

The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise :

(i) purchases or sales of goods (finished or unfinished) ;

(ii) purchases or sales of fixed assets ;

(iii) rendering or receiving of services ;

(iv) agency arrangements ;

(v) leasing or hire purchase arrangements ;

(vi) transfer of research and development ;

(vii) licences agreements ;

(viii) finance (including loans and equity contributions in cash or in kind) ;

(ix) guarantees and collaterals ; and

(x) management contracts including for deputation of employees.

Items of a similar nature may be disclosed in aggregate by type of related party.

AS 19 : LEASES

1. Lease is an arrangement by which the lessor gives a right to use an asset for a given period of time to the lessee on rent
2. Leases are classified into Finance Lease & Operating Lease
3. **Finance Lease :** It is a lease that transfers substantially all the risks & rewards incidental to ownership of an asset to the lessee by the lessor, but not legal ownership. In the following situations, the lease transactions are called Finance Lease :
   (a) The lessee will get the ownership of the leased asset at the end of the lease term (i.e. hire purchase transactions).
   (b) The lessee has an option to buy the leased asset at the end of the lease term at a price which is lower than its expected fair value at the date on which option will be exercisable & the lessee is likely to exercise the option.
   (c) The lease term covers the major part of the useful life of the asset.
   (d) At the beginning of the lease term, the PV of Minimum Lease Payments (MLPs) covers substantially the fair value (FV).
   (e) The asset given is of specialised nature & can be used only by the lessee without major modifications.
4. **Operating Lease :** It is a lease other than Finance Lease
5. **Definitions :**
   (a) Minimum Lease Payments (MLP)
      (i) MLP(lessee) = Lease Rents (LR) + Guaranteed Residual Value (GRV) by or on behalf of the lessee
      (ii) MLP (lessor) = LR + GRV by or on behalf of the lessee or by an independent 3rd party (i.e. anybody)
      MLPs do not include contingent rent, cost of services & taxes to be paid by & reimbursed to the lessor by the lessee. E.g. : property tax etc.
   (b) If lessee has purchase option & is likely to exercise it then,
      (i) MLP (lessor & lessee) = LR + Purchase Price (Option Price)
   (c) Definitions from Lessor point of view only :
      (i) Residual Value (RV) = It is the estimated FV of the leased asset at the end of the lease term
      (ii) Unguaranteed Residual Value (UGRV) = RV – GRV (anybody)
      (iii) Gross Investment (GI) = MLP(lessor) + UGRV
      It is just like Hire Purchase Price. In other words, GI is the maximum amount a lessor can get i.e. LR + RV
      (iv) Unearned Finance Income = GI – PV of GI
      In other words, it is the interest earned by the lessor
      (v) Net Investment in Lease (NI) = GI – unearned finance income
      In other words, it is just like cash price i.e. PV of GI
      (vi) FV is basically the market price (generally the cost price)
      (vii) **Lease Term :** The lease term is the non-cancellable period for which the lessee has agreed to take on lease the asset together with any future periods for which the lessee has the option to continue the lease of the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise
      (viii) **Implicit Interest Rate :** It is the discounting rate that equates PV of GI to the FV. Implicit Interest Rate can be calculated by the IRR technique.

AS 20 : EARNING PER SHARE(EXTRACT)

1. Basic EPS = Net profit attributable to ESHs / Weighted average no. of equity shares (WANES)
2. Numerator includes PPIs, extra-ordinary items & is after deduction of tax (current & deferred) & deduction of preference dividend including dividend tax on preference dividend.
3. Time is the weight factor for calculation of WANES. WANES is calculated on the basis of equity shares outstanding during the period. Shares are included in the calculation of WANES from the date the consideration is receivable. For e.g. :

Shares issued	**Included from**
For cash	Date of cash receivable
Against conversion of debentures	Date of conversion
Against interest or principle	Date on which interest ceases to accrue
Against settlement of liability	Date on which settlement becomes effective
For acquisition of assets	Date on which the acquisition is recognized
Amalgamation in the nature of purchase	Date of acquisition
Amalgamation in the nature of merger	Beginning of the reporting period
Bonus shares	Beginning of the reporting period

4. Partly paid equity shares should be treated as a fraction of an equity share i.e. converted to equivalent fully paid shares.
5. **Bonus Issue :** WANES should be so adjusted as if the bonus issue was made at the start of the earliest reporting period.
6. **Rights Issue :** If the rights issue is made at fair value, then it is treated as a normal issue i.e. included in WANES from the date of issue. However, generally a rights issue is below the fair price i.e. there is a bonus element to it. In this case, the no. of shares before the rights issue are to be multiplied by a Rights Factor, which is calculated as follows :
   Rights Factor = FV per share immediately prior to the exercise of rights / Theoretical ex-rights FV per share
7. In case of a share split or consolidation only the number of shares changes without any change in resources. EPS must be calculated on the basis of revised no. of shares from the beginning of the reporting period (similar to bonus issue).
8. Potential equity share is a financial instrument or a contract that entitles its holders to equity shares i.e. convertible debentures, convertible preference shares, Esops etc.
9. Potential equity shares are considered dilutive when their conversion into equity shares result in a decrease in EPS.
10. Diluted EPS = Net profit / loss attributable to ESHs after adjustment for diluted earnings / WANES (assuming the conversion of potential equity shares).
11. Only dilutive potential equity shares are considered for calculating Diluted EPS. Anti-dilutive potential equity shares are ignored.
12. **Re-statement :** If the no. of equity shares or potential shares outstanding is increased as a result of bonus issue/share split / consolidation of shares then the Basic EPS & Diluted EPS should be adjusted for all the periods presented.
13. **Disclosures :** The amount used as numerator for calculating Basic & Diluted EPS & its reconciliation with the net profit / loss for the period. Also, the calculation of WANES used as denominator in the calculation of Basic EPS & Diluted EPS.

AS - 24 : DISCOUNTINUING OPERATIONS

1) Definition :

A discontinuing operation is a component of an enterprise

(a) that the enterprise, pursuant to a single plan, is

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

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

iii) terminating through abandonment, and

(b) that represents a separate major line of business or geographical area of operations, and

(c) that can be distinguished operationally and for financial reporting purposes.

2) Discontinuing Operations are expected to occur infrequently. However Discontinuing Operation is not an extraordinary item as defined in Accounting Standard - 5. Also a Discontinuing Operation does not automatically bring into question the fundamental assumption of going concern.

3) A restructuring event is not necessarily a Discontinuing Operation. Examples of activities that do not necessarily on their own satisfy the discontinuing definition, but that might do so in combination with other circumstances, include :

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

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

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

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

4) A Discontinuing Operation is a component of an enterprise that can be distinguished operationally and for financial reporting. A component can be distinguished operationally and for financial reporting purposes if all the following conditions are met :

a) the operating assets and liabilities of the component can be directly attributed to it ;

b) its revenue can be directly attributed to it ;

c) at least a majority of its operating expenses can be directly attributed to it.

Assets, liabilities, revenue, and expenses are directly attributable to a component if they would be eliminated when the component is sold, abandoned or otherwise disposed of. If debt is attributable to a component, the related interest and other financing costs are similarly attributed to it.

5) Discontinuance begins when initial disclosure event takes place. A disclosure is required when either of the following two events takes place (whichever is earlier) :

(a) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation ; or

(b) the enterprise's board of directors or similar governing body has both (i) approved a detailed, formal plan for the discontinuance and (ii) made an announcement of the plan.

A detailed, formal plan for the discontinuance normally includes :

(a) identification of the major assets to be disposed of ;

(b) the expected method of disposal ;

(c) the period expected to be required for completion of the disposal;

(d) the principal locations affected ;

(e) the location, function, and approximate number of employees who will be compensated for terminating their services ; and

(f) the estimated proceeds or salvage to be realised by disposal.

An enterprise's board of directors or similar governing body is considered to have made the announcement of a detailed, formal plan for discontinuance, if it has announced the main features of the plan to those affected by it, such as, lenders, stock exchanges, creditors, trade unions, etc., in a sufficiently specific manner so as to make the enterprise demonstrably committed to the discontinuance.

6) The initial disclosure required relating to a discontinuing Operations are

(a) a description of the discontinuing operation ;

(b) the business or geographical segment in which it is reported as per Accounting Standard - 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 amount 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 (as defined under Accounting Standard - 22) 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.

For the purpose of presentation and disclosures required by Accounting Standard - 24, the items of assets, liabilities, revenues, expenses, gains, losses, and cash flows can be attributed to a discontinuing operation only if they will be disposed of, settled, reduced, or eliminated when the discontinuance is completed.

When an enterprise disposes of assets or settles liabilities attributable to a discontinuing operation or enters into binding agreements for the sale of such assets or the settlement of such liabilities, it should include, in its financial statements, the following information when the events occur :

(a) For any gain or loss that is recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation,

(i) the amount of the pre tax gain or loss and

(ii) income tax expense relating to the gain or loss; and

(b) The net selling price or range of prices (which is after deducting expected disposal costs) of the those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows and the carrying amount of those net assets on the balance sheet date.

7) If an initial disclosure event occurs between the balance sheet date and the date on which the financial statements for that period are approved by the board of directors in the case of a company or by the corresponding approving authority in the case of any other enterprise, disclosures as required by Accounting Standard - 4, Contingencies and Events Occurring After Balance Sheet Date, are made. However, disclosures under Accounting Standard - 24 are not required.

8) The disclosure should continue in Financial Statement for the periods upto and including the period in which the discontinuance is completed.

9) Narrative disclosures are given as notes to Financial Statement giving the following information :

* Description of Discontinuing Operations.
* Business geographical segment in which it is covered under Accounting Standard - 17.
* Date & nature of initial disclosure event
* Date and period in which discontinuance is likely to be completed if known or determinable.

Quantitative disclosures are as follows :

* Carrying amount of Assets and Liabilities to be disposed.
* Revenue, expenses, Pre-tax profits, tax related to Discontinuing Operations.
* Cash flow classified as operating, Investing & Financing activities for current period to be separately shown for Discontinuing Operations.

AS 26 : INTANGIBLE ASSETS

1. An assets is defined as a resource controlled by an enterprise as a result of past events & from which future economic benefits are expected to flow to the enterprise.
2. Objective : AS 26 prescribes recognition criteria, measurement, amortization & disclosure of IAs
3. AS 26 is applicable to :
   a. Goodwill
   b. Advertising exps
   c. Preliminary exps
   d. R & D costs
   e. Patents, trademarks & copyrights
   f. Computer software etc
4. **Definition of IA :** An IA is an identifiable, non-monetary asset without physical substance held for use in the production or supplying of goods or services, or for rentals to others or for administrative purposes.
5. **Recognition Criteria :** An IA will be recognized i.e. recorded in the books provided both the following conditions are fulfilled :
   a. Probable future economic benefits will flow from the IA to the enterprise &
   b. The cost of the IAs can be reliably measured
6. The cost of IA depends on the way it is acquired :
   a. Separate Acquisition
   b. Exchange for another asset
   c. Issue of shares or securities
   d. IAs arising from amalgamation (in the nature of purchase)
   e. Acquisition through government grants
7. **Subsequent Expenditure on IAs :** Expenditure incurred on IAs after they have been recognized / recorded is called subsequent expenditure. It should be added to the cost of IA only if such subsequent expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance & the expenditure can be measured & attributed to the asset reliably.
8. **Carrying amount of IAs :** It is the amount at which assets are recognized in the Balance Sheet, net of accumulated amortization & impairment losses thereon
9. **Amortization method :** The depreciable amount of IAs is amortised over its useful life. Depreciable amount is cost less residual value. AS 26 provides that amortisation method should reflect the pattern in which the asset's economic benefits are consumed. If that is not determinable then SLM should be used. The residual value of IAs is assumed to be zero unless :
   a. There is commitment by a third party to purchase the asset at the end of its useful life or
   b. There is an active market for the asset that can be used to determine the residual value & that such a market would probably exist at the end of the asset's useful life. The residual value cannot be subsequently increase for changes in value (decrease is permitted).

The useful life of the IAs should be taken as 10 years unless there is clear evidence that the useful life is longer than 10 years. If economic benefits from IAs are achieved through legal right granted for finite period then the useful life cannot exceed the legal right period unless the legal right is renewable & the renewal is certain.

10. Amortisation method should be review annually. It should be changed if :
    a. The expected useful life has significantly changed or
    b. The pattern of future economic benefits has significantly changed.

    Prospective / retrospective effect would depend upon whether it is a change in accounting estimate / policy.
11. An IA should be de-recognised / eliminated from Balance Sheet if :
    a. It is disposed or
    b. No future economic benefits are expected from its use.

    Gain / loss on disposal should be recognized as income / expense in the P & L A/c.
12. Internally generated goodwill is not recognized in the financial statements because the cost cannot be reliably measured.
13. **R & D expense :** Research is original & planned investigation undertaken with the prospect of gaining new scientific or technical knowledge & understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, process systems or services prior to the commencement of commercial production or use. If an enterprise cannot distinguish the research phase from the development phase of a project to create an intangible asset, it should treat the expenditure on that project as if it were incurred in the research phase only. As per AS 26, research cost must be expensed when it is incurred i.e. research cost cannot be capitalized. Development costs are also to be expensed unless they meet the asset recognition criteria & the enterprise can demonstrate the following :
    a. Technical feasibility of completing the IA so that it will be available for use or sale.
    b. Its intention to complete the IA & its intention & ability to use or sell it etc..
14. Cost of internally generated intangible would comprise of the costs which are incurred during the development phase of the IA & which are directly attributable to or reasonably allocable to the IA.
15. AS 26 is not applicable to :
    a. Ownership interest in other enterprise, investments
    b. Goodwill arising on amalgamation
    c. Goodwill arising on consolidation
    d. DTA
    e. Issue exps, discounts & premiums on borrowings & issue of shares etc.
16. **Disclosures :** The financial statements should disclose the following in respect of IA :
    a. Useful life or amortisation rate
    b. Amortisation method
    c. Gross carrying amount & accumulated amortisation at the beginning & end of the period
    d. Reconciliation of carrying amount at the beginning & end of the period
    e. If amortisation period is more than 10 years, the reason thereof
    f. R & D exps recognized as expenses during the period etc..

AS 29 : PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1. As per AS 4, contingency refers to conditions or situations on the Balance Sheet date, the outcome of which is not known & the result would be determined by future events which may or may not occur.

2. **Definitions :**

   a. A provision is a liability which can be measured only by using a substantial degree of estimation.

   b. A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

   c. An obligating event is an event that creates an obligation that results in an enterprise having no realistic alternative to settling that obligation. Thus, a past event that leads to a present obligation is called an obligating event.

   d. A contingent liability is :

      i. A possible obligation that arises from past events & the existence of which be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise or

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

         1. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or

         2. a reliable estimate of the amount of obligation cannot be made

   e. A contingent asset is a possible asset that arises from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of 1 or more uncertain future events not wholly within the control of the enterprise

   f. An obligation is a present obligation if based on the evidence available, its existence at the balance sheet date is considered probable i.e. more likely than not

   g. An obligation is a possible obligation if based on the evidence available, its existence at the balance sheet date is considered not probable.

3. **Provisions :** A provision should be recognized when :-

   a. An enterprise has a present obligation as a result of a past event

   b. Its is probable that an outflow of resources embodying economic benefits will be required to settle the obligation &

   c. A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized. The amount of provision should be recognized before tax & is not discounted to its PV.

4. Financial statements deal with the financial position of an enterprise at the end of its reporting period & not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in an enterprise's B/S are those that exist at the B/S date. It is only those obligation arising from past events existing independently of an enterprise's future actions (i.e. the future conduct of its business) that are recognized as provisions.

5. Where there are a number of similar obligations (e.g. : product warranties), the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

6. An enterprise should not recognize a contingent liability. A contingent liability is to be disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. When an enterprise is jointly & severally liable for an obligation, that part of the obligation which is expected to be met by other parties is treated as a contingent liability. Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources economic benefits has become probable.

7. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized, when & 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 recognized for the reimbursement should not exceed the amount of the provision. In the statement of the P & L, the expense relating to a provision may be presented net of the amount recognized for a reimbursement

8. Provisions should be reviewed at each Balance Sheet date & adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

9. An enterprise should not recognize a contingent asset. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. E.g. : a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain. Where an inflow of economic benefits is probable, the contingent asset is usually disclosed in the Directors' Report & not in the financial statements. Contingent assets are assessed continually & if it has become virtually certain that an inflow of economic benefits will arise, the asset & the related income are recognized in the financial statements of the period in which the change occurs.

PART B : CLASSWORK SECTION

AS 7 : CONSTRUCTION CONTRACTS

Q. 1. L & T construction company Ltd. was awarded a contract for construction of a bridge for ₹ 100 crores on 01/06/02.Total contract cost estimated was ₹ 85 crores. The position of the contract as on 31/03/03 & 31/03/04 was as under :

	In ₹ crores	
	As on 31/03/03	**As on 31/03/04**
Contract price	100	100
Contract cost incurred till date	25	95 (100% complete)
Estimated contract cost of completion	60	NIL

While closing the books of accounts as on 31/03/04 the chief accountant treated excess cost of ₹ 10 crores incurred as against an estimated cost of ₹ 85 crores (25 + 60) as on 31/03/03 as mistake in estimation of cost, hence categorized ₹10 crores as a prior period expense. Comment

Q. 2. Hiranandani Ltd. follows the percentage completion method for recognizing the revenue on construction contracts. From the following particulars, you are required to determine the results of contracts X, Y & Z to be included in the P & L A/c of the company for the year ended 31/03/04.

	In ₹ crores		
Particulars	**X**	**Y**	**Z**
Date of commencement	15/04/03	01/10/03	05/08/02
Expected date of completion	15/05/04	01/07/06	30/04/04
Contract Value	313	1247	80
Costs incurred till 31/03/04	239	75	72
Estimated costs to complete	17		9
Profits recognized till 31/03/03			1.50

Q. 3. Raheja Ltd. procured a ₹ 5,00,000 contract that required 3 years to complete & incurred a total cost of ₹ 4,50,000. The following data pertains to the construction period. The firm seeks your advice & assistance in the presentation of accounts in accordance with AS 7. Also show relevant disclosures.

Particulars	**Year 1**	**Year 2**	**Year 3**
Cumulative costs incurred till date	1,50,000	3,60,000	4,05,000
Estimated cost yet to be incurred at year end	3,00,000	40,000	----
Progressive billing made during the year	1,00,000	3,70,000	30,000
Collections of billings	75,000	3,00,000	1,25,000

Q. 4. A company took a construction contract for ₹ 100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of ₹ 92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of ₹ 23 lakhs for completing the contract. The expected loss would be ₹ 15 lakhs.

Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2007?

Q. 5. An amount of ₹ 9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of ₹ 12,00,0000 against which ₹ 10,80,000 has been received in cash. The cost of work done but not certified amounted to ₹ 22,500. It is estimated that by spending an additional amount of ₹ 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ₹ 12,50,000.

Compute a conservative estimate of the profit to be taken to the e Profit and Loss Account as per AS-7.

Q. 6. From the following data, show. Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard - 7:

	(₹ in lakhs)
Contract Price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

AS 9 : REVENUE RECOGNITION

Q. 7. Suggest a suitable method for recognition of revenue in the following situations :

Sale of Goods :

a. Goods sold subject to installation & inspection
b. Sale on approval
c. Guaranteed sales
d. Consignment sale
e. Cash on delivery
f. Sale & re-purchase agreements

Rendering of services :

a. Insurance agency commission
b. Admission ticket fees for some performance

Q. 8. A company offers product warranty. Past experience shows that the company had to expend 5% of the sales value of the last accounting year during the current accounting period to fulfill the warranty obligation. Should the company recognize any provision for warranty against sales of the current accounting year?

Q. 9. Total sales of XYZ Ltd. include a sum of ₹ 50 lacs representing royalty receivable for supply of know-how to a company in Iraq. As per the agreement, the amount is to be received in USDs.. However, exchange permission was denied to the Iraqi company for remitting the same. How should this be treated in the books as per AS 9?

Q. 10. Media Advertisers Ltd. obtained advertising rights for the World Cup cricket tournament to be held in May / June 1999 for ₹ 250 lacs.

a. By 31/03/99 they paid ₹ 150 lacs to secure these advertising rights & the balance ₹ 100 lacs were paid in April 1999.
b. By 31/03/99 they processed advertisement for 70% of the available time for ₹ 350 lacs. The advertiser paid 60% of the amount by that date & balance 40% was received by April 1999.
c. The advertisement for balance 30% time was processed in April 1999 for ₹ 150 lacs.
d. The advertiser paid full amount while booking the advertisement. 25% of the advertising time is expected to be available in May 1999 & balance 75% in June 1999.

Calculate the Profit/Loss for the month of April, May & June 1999.

Q. 11. M/s. SEA Ltd. recognized ₹ 5.00 lakhs on accrual basis income from dividend during the year 2010-11, on shares of the face value of ₹ 25.00 lakhs held by it in Rock Ltd. as at 31st March, 2011. Rock Ltd. proposed dividend @ 20% on 10th April, 2011. However, dividend was declared on 30th June, 2011. Please state with reference to relevant Accounting Standard, whether the treatment accorded by SEA Ltd. is in order.

Q. 12. A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.

AS - 18 : RELATED PARTY DISCLOSURES

Q. 13. A Ltd. sold to B Ltd. goods having a sales value of ₹ 50 lakhs during the financial year ended 31.3.2009. Mr. X, the Managing Director and Chief Executive of A Ltd. owns nearly 100% of the capital of B Ltd. The sales were made to B Ltd. at the normal selling price of A Ltd. The chief accountant of A Ltd. does not consider that these sales should be treated any differently from any other sale made by the company despite being made to a controlled company, because the sales were made at normal and that too, at arm's length prices. Discuss the above issue from the view point AS - 18.

AS 19 : LEASES

Q. 14. Amro Ltd. is considering the replacement of its outdated mainframe computer on 1st October 2008. The replacement computer has a cost of ₹ 21 lakhs and its useful economic life is estimated to be seven years. After negotiations the directors of Amro Ltd. decide to enter into a four-year lease with Scottish Ltd. for total lease payments of ₹ 20 lakhs payable in four equal instalments - the first instalment being due on day one of the leasing period.

Under this arrangement, Scottish Ltd. would have responsibility for up keep and maintenance, and has negotiated a guaranteed repurchase by the manufacturer at the end of the lease term. The interest rate implicit in the lease is 10%. Analyse whether this transaction should be treated as a Finance Lease / Operating Lease with reference to AS 19 in the books of Amro Ltd.

Ans. To determine whether a lease is a finance or operating lease we have to consider the provisions contained in para 3, 8 and 9 of AS 19. According to para 3:

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

An operating lease is a lease other than a finance lease.

The following provisions of para 8 will be considered in determining whether the lease is a finance or operating lease .

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than its form. Examples of situations which would normally lead to a lease being classified as a finance lease are:

(a) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

(b) the lease transfers ownership of the asset to the lessee by the end of the lease term;

(c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

Various aspects of the agreement are to be examined in order to determine whether any of the provisions and indications above are being satisfied.

(i) We shall first calculate the present value of the minimum lease payments as under:

Year 0 (day 1)	Year 1	Year 2	Year 3	Total
5,00,000	5,00,000	5,00,000	5,00,000	20,00,000
* 1	* 0.909	*0.826	* 0.751	
5,00,000	4,54,500	4,13,000	3,75,500	= 17,43,000
				(r / off to 000)

Going by the fair value of computer at ₹21.00 lacs, the present value of minimum lease payments is about 83%. This is indicative of the arrangement being an operating lease. However, other factors ought to be considered.

(ii) Scottish Ltd. the lessor is vested with the responsibility of upkeep and maintenance and thus the risks of ownership continues to remain with the lessor. This is also indicative of the arrangement being an operating lease.

(iii) As regards residual value, manufacturer has himself agreed to a guaranteed repurchase, and the asset will no longer be with Amro Ltd. at the end of lease term.

(iv) The computer has a life of seven years. But the lease term is restricted to only four years. Thus the lease term does not cover the entire economic life of the asset.

Viewed in totality, this is an operating lease.

Q. 15. Classify the following, into either operating or finance leases.

(a) Ownership of an asset gets vested in the lessee at the end of lease term

(b) Lessee has option to purchase the asset at lower than fair value, at the end of lease term.

(c) Economic life of the asset 5 Years, lease term $4^1/_2$ years, but asset is not acquired at the end of lease term.

(d) PV of MLP = ”X”, Fair value of the asset is Y.

(e) Economic life = 5 Years, lease term 2 years, but the asset is of a special nature, and has been procured only for use of lessee.

Ans. (a) Finance Lease

(b) If it becomes certain, at the inception of lease itself, that the option will be exercised by the lessee, it is a Finance Lease.

(c) It will still be classified as a finance lease, since a substantial portion of the life of the asset is covered by lease - term.

(d) Where X = Y, or where X substantially equals Y, it is a finance lease.

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

Q. 16. Amro Ltd. leased out a machinery for a period of 10 years. The lease term covers a substantial part of the economic life of the machinery. The lessee ABN Ltd. has agreed to pay lease rentals @ ₹12 lacs p.a. for seven years. ABN Ltd. has the option to continue the lease paying @ ₹3 lacs p.a. for another three years.

ABN Ltd. does not provide any guarantee for residual value. But a Group company gives guarantee for a residual value at the end of 7 years and 10 years at ₹ 6 lacs and ₹1 lac respectively.

Required :

(i) What should be taken as minimum lease payment from the standpoint of the lessor and the lessee?

(ii) Also advice the Gross investment in lease.

Q. 17. Hi Ltd. (the Lessee) acquired a machinery on lease from Fi Ltd. (Lessor) for a period of 3 years beginning from April 1, 2005. The lease term covers the entire economic life of the machinery. The fair value of the machinery on April 1, 2005 is ₹3,50,000. The lease agreement requires the lessee to pay an amount of ₹1,50,000 per year beginning March 31, 2006.

The lessee has guaranteed a residual value of ₹11,400 on March 31, 2008 to the lessor. The lessor however estimates that the machinery will have a salvage value of only ₹10,000 on March 31, 2009. The implicit rate of interest is 15% p.a. The lessee has classified the lease as a finance lease in accordance with the provisions of AS-19 and accordingly requires you to.

(i) Compute the value of machinery to be recognised by the lessee.

(ii) Compute the finance charges for each year of the lease term.

Q. 18. Samsung Ltd. has taken the asset on lease from Trintron Ltd. on 01/04/2009. The following information is given below :

Lease term	4 years
Fair value at inception of lease	₹16,00,000
Annual Lease Rent payable at the end of the year	₹5,00,000
Guaranteed Residual Value	₹1,00,000
Expected Residual Value	₹3,00,000
Implicit Interest Rate	14.97%

The lease has been classified as finance lease.

You are required to :

Account for the above transactions in the books of Samsung Ltd. for the lease term.

Q. 19. Samsung Ltd. has taken the asset on lease from Trintron Ltd. on 01/04/2009. The following information is given below :

Lease term	4 years
Fair value at inception of lease	₹ 16,00,000
Annual Lease Rent payable at the end of the year	₹ 5,00,000
Guaranteed Residual Value	₹ 1,00,000
Expected Residual Value	₹ 3,00,000
Implicit Interest Rate	14.97%
Initial direct cost incurred by the lessor	₹ 40,000

The lease has been classified as finance lease.

You are required to :

Account for the above transactions in the books of Trinitron Ltd.

Q. 20. Operating Lease

An asset is leased out for a period of 5 years out of its useful life of 10 years on 01/04/2009, the date on which the asset was purchase by the lessor. The lease arrangement has been classified as operating lease. The agreed annual lease rental is ₹ 20 lacs. Following information has been provided :

Annual Lease Rent	₹ 20,00,000
Fair Value of the asset at the inception of lease	₹ 1,00,00,000
Initial direct cost incurred by the lessor	₹ 1,00,000
Method of depreciation followed by the lessor	SLM
Annual Depreciation charge	₹ 10,00,000

You are required to account for the operating lease in accordance with the provisions of AS 19:

(i) In the books of the Lessor (ii) In the books of the Lessee

AS 20 : EARNING PER SHARE

Q. 21. On 01/01/08 XYZ Ltd. had 1800 equity shares outstanding. On 31/05/08, it issued 600 equity shares for cash. On 01/11/08, it bought back 300 equity shares. Calculate WANES as on 31/12/08.

Q. 22. LMN Ltd. had 1800 fully paid up equity shares of ₹10 each outstanding as on 01/01/08. On 31/10/08, it issued 600 shares of ₹10 each, ₹ 5 paid up. Calculate WANES as on 31/12/08.

Q. 23. ABC Ltd. had 2 lac equity shares outstanding as on 01/01/08. On 01/10/08, it issued bonus shares in the ratio of 2 : 1. Net profit for 2007 was ₹18 lacs & 2008 was ₹60 lacs. Calculate Basic EPS for 2007 & 2008.

Q. 24. On 01/01/08 D Ltd. had 5 lac shares outstanding. On 01/03/08, it issued 1 new share for every 5 shares held @ ₹ 15. FV of 1 equity share immediately before the rights issue was ₹ 21. Net profit for the year 2007 was ₹ 11 lacs & 2008 was ₹ 15 lacs. Calculate Basic EPS for 2007 & 2008.

Q. 25. E Ltd. has 50 lac outstanding shares as on 01/01/08. Net profit for the year is ₹ 1 crore. E Ltd. has 1 lac 12% convertible debentures outstanding of ₹ 100 each to be converted into 10 equity shares per debenture. Tax rate = 30%. Calculate Basic & Diluted EPS.

Q. 26. F Ltd. has 5 lac equity shares outstanding as on 01/01/08. Net profit for 2008 was ₹12 lacs, average FV per share during 2008 was ₹ 20. F Ltd. has given share option to its employees of 1 lac shares at option price of ₹ 15. Calculate Basic & Diluted EPS.

Q. 27. (i) Explain the concept of 'Weighted average number of equity shares outstanding during the period'.

State how would you compute, based on AS-20, the weighted average number of equity shares in the following case:

1st April 2011	Balance of Equity Shares	4,80,000
31st August 2011	Equity Shares issued for cash	3,60,000
1st February 2012	Equity shares bought back	1,80,000
31st March 2012	Balance of equity shares	6,60,000

(ii) Compute adjusted earning per share and basic earning per share based on the following information :

Net Profit 2010-11	₹ 11,40,000
Net Profit 2011-12	₹ 22,50,000
No. of equity shares outstanding	₹ 5,00,000

Q. 28. The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11:

Net profit for	₹
Year 2009-10	25,00,00
Year 2010-11	0 40,00,000

No. of shares outstanding prior to right issue 12,00,000 shares.

Right issue : One new share for each three outstanding i.e. 4,00,000 shares

: Right issue price ` 22

: Last date to exercise rights 30-6-2010

Fair value of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28.

You are required to compute the basic earnings per share for the years 2009-10 and 2010-11.

AS - 24 : DISCOUNTINUING OPERATIONS

Q.29. A healthcare goods producer has changed the product line as follows :

Monthly Sales	**Washing Soap**	**Bathing Soap**
January, 2009 - September, 2009	4,00,000	4,00,000
October, 2009 - December, 2009	2,00,000	6,00,000
January, 2010 - March, 2010	--	8,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors of the Company has passed a resolution in March, 2009 to this effect. The company follows calendar year as its accounting year. Should it be treated as discontinuing operation?

Q. 30. A heaithcare goods producer has changed its geographic segment for one area, as follows:

Monthly Sales	Maharastra	Gujarat
January, 2008 - September, 2008	4,00,000	4,00,000
October, 2008 - December, 2008	2,00,000	6,00,000
January, 2009 - March, 2009	--	8,00,000

Earlier the company was marketing the production in two geographic segments. Because of stiff competition and falling margin in the Maharastra, it had gradually closed down its operation in Maharastra and shifted all activities to Gujarat. Should this event form part of discontinuing operations?

Q.31. A Company belonging to the process industry carries out three consecutive processes. The output of the first process is taken as input of the second process, and the output of the second process is taken as input of the third process. The final product emerges out of the third process. It is also possible to outsource the intermediate products. It has been found that over a period of time cost of production of the first process is 10% higher than the market price of the intermediate product available freely in the market. The company has decided to close down the first process as a measure of cost saving (vertical spin off) and outsource. Should this event be treated as discontinuing operations?

Q. 32. A company has two divisions - cement and steel. It has started negotiating for disposal of the steel division informally since May 2008, discussion has been held with the possible buyers, the labour union has demonstrated against this secret deal, the company has given a statement that there is no move to sell the steel division. The significant reduction in the production has taken place because of decline in the market demand for the company's product not as planned strategy to close down operation. During November 2008 the Board of Directors has announced that they are considering disposal of the steel division because of continuing loss suffered by that division. But no formal resolution was passed. Necessary formalities for disposal of a division were fulfilled only during January 2005 and the steel division was disposed of in the last week of January 2009. The company follows calendar year as accounting year. Does this event require disclosure?

AS 26 : INTANGIBLE ASSETS

Q. 33. XYZ Ltd. acquired a patent right for ₹ 200 lacs. The product life cycle has been initially estimated to be 5 years. The estimated cash flows over the useful life of the patent are (₹ in lacs) Yr. 1 – 300, Yr. 2 – 300, Yr. 3 – 300, Yr. 4 – 200 & Yr. 5 – 200. Initially a 5 year amortisation period has been decided in the ratio of estimated future cash flows. After 3rd year it was ascertained that the patent will continue to maintain the market share for another 6 years but the estimated cash flow p.a. after the 5th year is expected to be ₹150 lacs. What would be the change in amortisation.

Q. 35. A company had deferred research and development cost of ₹ 450 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in Lakhs)
1	1200
2	900
3	600
4	300

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of ₹ 450 Lakhs is development cost. If at the end of 3rd year, it is felt that no further benefit will accrue in the year, how the unamortized expenditure would be dealt with in the accounts of the Company?

Q. 36. Hera Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of ₹ 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (₹ in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. Suggest the amortization method.

Q. 37. NDA Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹ a 530 lakhs on research upto 31st March, 2011

The development of the process began on 1st April, 2011 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 2012 which meets assets recognition criteria.

From 1st April, 2012, the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years.

The cost of capital of company is 10%.

Explain:

(1) Accounting treatment for research expenses.

(2) The cost of internally generated intangible asset as per AS 26.

(3) The amount of amortization of the assets. (The present value of annuity factor of ₹ 1 for 5 years @ 10% = 3.7908)

AS 29 : PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Q. 38. Warranties

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (i.e. more likely than not) that there will be some claims under the warranties.

Q. 39. Contaminated Land Legislation Virtually Certain to be Enacted

An enterprise in the oil industry causes contamination but does not clean up because there is no legislation requiring cleaning up, and the enterprise has been contaminating land for several years. At 31 March 2005 it is virtually certain that a law requiring a clean - up of land already contaminated will be enacted shortly after the year end.

Q. 40. Refund Policy

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Q. 41. Staff Retraining as a Result of Changes in the Income - Tax System.

The government introduces a number of changes to the income tax system. As a result of these changes, an enterprise in the financial services sector will need to retrain a large proportion of its administrative and sales work force in order to ensure continued compliance with financial services regulation. At the balance sheet date, not retraining of staff has taken place.

Q. 42. A Single Guarantee

During 2007-08, Enterprise A gives a guarantee of certain borrowings of Enterprise B, whose financial condition at that time is sound. During 2008-09, the financial condition of Enterprise B deteriorates and at 30 September, 2008 Enterprise B goes into liquidation.

Q. 43. A Court Case

After a wedding in 2007-08, ten people died, possibly as a result of food poisoning from products sold by the enterprise. Legal proceedings are started seeking damages from the enterprise but it disputes liability. Up to the date of approval of the financial statements for the year 31 March 2008, the enterprise's lawyers advise that it is probable that the enterprise will not be found liable. However, when the enterprise prepares the financial statements for the year 31 March 2009, its lawyers advise that, owing to developments in the case, it is probable that the enterprise will be found liable.

Q. 44. An engineering goods company provides after sales warranty for 2 years to its customers.

Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year : 2% provision

More than 1 year : 3% provision

The company has raised invoices as under:

Invoice Date	Amount (₹)
19th January, 2011	40,000
29th January, 2012	25,000
15th October, 2012	90,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2012 and 31st March, 2013. Also compute amount to be debited to Profit and Loss Account for the year ended 31st March, 2013.

Q .45. There is a sales tax demand of ₹ 2.50 crores against a company relating to prior years against which the company has gone on appeal to the appellate authority in the department. The grounds of appeal deal with points covering ₹ 2 crores of the demand. State how the matter will have to be dealt with in the final accounts for the year.

ANSWERS

Ans.35. Present obligation as a result of a past obligating event - The obligations event is the sale of the product with a warranty, which gives rise to an obligation.

An outflow of resources embodying economic benefits in settlement - Probable for the warranties as a whole (see paragraph 23).

Conclusion - A provision is recognised for the best estimate of the costs of making good under the warranty products sold before the balance sheet date (see paragraph 14 and 23).

Ans.36. **Present obligation as a result of a past obligating event -** The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.

An outflow of resources embodying economic benefits in settlement - Probable.

Conclusion - a provision is recognised for the best estimate of the costs of the clean - up (see paragraphs 14 and 21).

Ans. 37. **Present obligation as a result of past obligating event -** The obligating event is the sale of the product, which gives rise to an obligation because obligations also arise from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.

An outflow of resources embodying economic benefits in settlement - Probable, a proportion of goods are returned for refund (see paragraph 23).

Conclusion - A provision is recognised for the best estimate of the costs of refunds (see paragraphs 11, 14 and 23).

Ans. 38. **Present obligation as a result of a past obligating event -** There is no obligation because no obligating event (retraining) has taken place.

Conclusion - No provision is recognised (see paragraphs 14 and 16 - 18).

Ans. 39. **(a) At 31 March, 2008**

Present obligation as a result of a past obligating event - The obligating event is the giving of the guarantee, which gives rise to an obligation.

An outflow of resources embodying economic benefits in settlement - No outflow of benefits is probable at 31 March 2008.

Conclusion - No provision is recognised (see paragraph 14 and 22). The guarantee is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (see paragraph 68).

(b) At 31 March 2009

Present obligation as a result of a past obligating event - The obligating event is the giving of the guarantee, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement - At 31 March, 2009 it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation.

Conclusion - A provision is recognised for the best estimate of the obligation (see paragraph 14 and 22).

Note : This example deals with a single guarantee. If an enterprise has a portfolio of similar guarantees, it will assess that portfolio as a whole in determining whether an outflow of resources embodying economic benefit is probable (see paragraph 23). Where an enterprise gives guarantees in exchange for a fee, revenue is recognised under AS 9, Revenue Recognition.

Ans. 40. (a) At 31 March 2008

Present obligation as a result of past obligating event - On the basis of the evidence available when the financial statements were approved, there is no present obligation as a result of past events.

Conclusion - No provision is recognised (see definition of 'present obligation' and paragraph 15). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraph 68).

(b) At 31 March 2009

Present obligation as a result of a past obligating event - On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement - Probable.

Conclusion - A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 14-15).

CHAPTER - 2 COMPANY ACCOUNTS (ESOP & BUY BACK)

PART A : THEORY SECTION

EMPLOYEE STOCK OPTION PLAN

As per Company Act 2013, the ESOP means the option given to the old time directors, officers or employees of a company which gives such directors, officers or employees the benefit or right to purchase or subscribe at a future at the securities offered by the company at a predetermined price.
No ESOP can be offered to employees of a company unless the shareholders of company approve by passing a special resolution in General Meeting.
Option Granted to Employees shall not be transferable to any person.
ESOS would be open to all permanent employees & directors of the company.

Journal Entries :

1. **Stock Option Granted :**

Employee Compensation Expense A/c	Dr.	xx	
To Employee Stock Option Outstanding A/c			xx

2. **Allotment of Shares :**

Bank A/c (Shares x amount received)	Dr.	xx	
Employees Stock Option Outstanding A/c	Dr.	xx	
To Equity Share Capital A/c			xx
To Securities Premium A/c			xx

3. **Stock Option Lapsed :**

Employee Stock Option Outstanding A/c	Dr.	xx	
To Employee Compensation Expenses A/c			xx

4. **Transfer :**

Profit & Loss A/c	Dr.	xx	
To Employee Compensation Expense A/c			xx

BUY - BACK OF SHARES

Legal Provisions : (As per Sec. 68, 69 & 70 Companies Act, 2013) :

1. The Nominal Value of Buy Back in a particular financial year cannot exceed 25% of paid equity share capital of the company.
2. Maximum expenditure on buy - back in a particular financial year cannot exceed 25% of total equity base of the company.
   (Equity Base = Preference Share Capital + Equity Share Capital + Divisible Profits Including Securities Premium - Miscellaneous Expenditure)
3. The Debt Equity Ratio after buy - back should not exceed 2 : 1.

$$\text{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{\text{Secured loans + unsecured loans}}{\text{Equity Base}}$$

Journal Entries

1. For Fresh Issue

Bank A/c	Dr.	xx	
To Preference Share Capital A/c			xx

2. For Buy Back

Equity Share Capital A/c	Dr.	xx	
Premium on Buy Back A/c	Dr.	xx	
To Bank A/c			xx

3. For writing off the premium

Divisible profits incl. securities premium A/c	Dr.	xx	
To Premium on Buy Back A/c			xx

4. For Creation of C.R.R.

Divisible Profit Incl. Securities Premium A/c	Dr.	xx	
To C.R.R. A/c			xx

Note : If the fresh issue is less than the buy back amount, C.R.R. will have to the created for the difference amount.

PART B : CLASSWORK SECTION

(I) ESOP

Q. 1. A company has its share capital divided into share of ₹ 10 each. On 1st April, 2016 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2016 and 15th March, 2011. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year.

Q. 2. ABC Ltd. grants 1,000 employees stock options on 1.4.2016 at ₹40, when the market price is₹ 160. The vesting period is $2^{1}/^{2}$ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2016. 600 options are exercised on 30.6.2017. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

Q. 3. S Ltd. grants 1,000 options to its employees on 1.4.2014 at ₹ 60. The vesting period is two and a half years. The maximum exercise period is one year. Market price on that date is ₹ 90. All the options were exercised on 31.7.2017. Journalize, if the face value of equity share is ₹ 10 per share.

Q. 4. On 1st April, 2016, a company offered 100 shares to each of its 500 employees at ₹ 50 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share.

On 31st March, 2017, 400 employees accepted the offer and paid ₹ 50 per share purchased. Nominal value of each share is ₹ 10.

Record the issue of share in the books of the company under the aforesaid plan.

Q. 5. X Co. Ltd. has its share capital divided into equity shares of ₹10 each. On 1.4.2016 it granted 20,000 employees' stock option at ₹ 50 per share, when the market price was ₹ 120 per share. The options were to be exercised between 15th March, 2017 and 31st March, 2017. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year.

Show Journal entries (with narration) as would appear in the books of the company upto 31st March, 2017.

Q. 6. Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2014 for ₹ 20, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is ₹ 50 each. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.3.2015. 4,000 unvested options lapsed on 31.3.2016 and finally 3,500 unvested options lapsed on 31.3.2017.

Following is the earning of Choice Ltd. :

Year ended on	Earning (in %)
31.3.2015	14%
31.3.2016	10%
31.3.2017	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

(II) BUY BACK OF SHARES

Q. 7. Shruti Ltd., resolved to buy - back 3,00,000 of its fully paid equity shares of ₹ 10 each at ₹ 12 per share. For the purpose, it issued 10,000 13% preference shares of ₹ 100 each at par, the total sum being payable with applications. The company uses ₹ 9,00,000 of its balance in securities premium Account apart from its adequate balance in General Reserve Account to fulfil the legal requirements regarding buy - back.

Pass journal entries for all the transactions involved in the buy - back.

Q. 8. Kuber Ltd. furnishes you with the following Balance Sheet as at 31st March, 2017.

(₹ in crores)

	₹	₹
Sources of funds :		
Share Capital :		
Authorised		100
Issued :		
12% redeemable preference shares of ₹ 100 each fully paid	75	
Equity shares of ₹10 each fully paid	25	100
Reserves and Surplus :		
Capital reserve	10	
Securities premium	30	
Revenue reserves	260	300
Total		**400**
Funds employed in :		
Fixed assets : Cost	100	
Less : Provision for depreciation	100	Nil
Investments at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less : Current liabilities	40	300
Total		**400**

The company redeemed preference shares on 1st April, 2017 at 5% premium. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balance, which appeared as part of current assets. You are asked to pass journal entries to record the above.

Q. 9. The balance sheet of V Ltd. as on 31.3.2017 is as follows :

Liabilities	**₹**	**Assets**	**₹**
I. Share Capital		I. Fixed Assets	
Authorised :	?	Net Block	60,00,000
Paid up :		II. Investments	50,00,000
Equity shares of ₹ 10 each	50,00,000	III. Current Assets, Loans &	
II. Reserves & Surplus		Advances	
Securities premium A/c	5,00,000	a. Current Assets :	80,00,000
General reserve	20,00,000	b. Loans & Advances :	----
Profit & Loss A/c	25,00,000	IV. Miscellaneous Expenditure	----
III. Secured Loans			
Debentures	50,00,000		
IV. Unsecured Loans	----		
V. Current Liabilities &			
Provisions			
a. Current Liabilities :	40,00,000		
b. Provisions :	----		
	1,90,00,000		**1,90,00,000**

Keeping in view all the legal requirements, ascertain the maximum no. of equity shares that V Ltd. can buy back, at market value ₹ 40.

Q. 10. From the following details calculate maximum buy - back permissible when market value is ₹ 25

Equity Share Capital (₹ 10)	15,00,000
Preference Share Capital (₹ 100)	5,00,000
Development Rebate Reserve	2,00,000
Investment Allowance Reserve	1,50,000
Securities Premium	50,000
General Reserve	2,00,000
Capital Reserve	1,00,000
Discount on Issue of Debentures	40,000
Profit & Loss Account	1,50,000
Preliminary Expenses	60,000
10% Debentures	8,00,000
Loan from Directors	2,00,000

Q. 11. Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2013:

Liabilities	₹	Assets	₹
Equity Shares of ₹10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long-term borrowings	16,50,000		
Total	**76,50,000**	**Total**	**76,50,000**

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2013 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

CHAPTER - 3 UNDERWRITERS LIABILITY

PART A : THEORY SECTION

Underwriting is a contract of guarantee. In case of issue of shares or debentures, if applications received fall short of total issue or amount underwritten, the balance of shares or debentures are taken up by underwriters. Underwriting ensures that company will receive full amount of its public issue of securities and thus helps companies to plan their financial requirements. The company has the option to have a public issue underwritten by more than one underwriter. When the public issue of a company is underwritten by more than one underwriters and if there is a short subscription then the liability of each underwriter is determined by adopting following course.

(A) For Public Issue fully underwritten

Steps to calculate underwriters liability

Step 1 : Record Gross liability and determine its ratio.

Step 2 : Deduct Marked application from gross liability.

Step 3 : Distribute unmarked applications amongst all underwriters in the ratio of their gross liabilities.

Step 4 : If any underwriter has a surplus after step 3 then his surplus should be dis tributed amongst remaining underwriters in their gross liability ratio.

Step 5 : The resultant figure after the completion of the above steps represents the net liability of the underwriters. The net liability represents the shares unsubscribed by the public.

Journal Entries :

1. For amount due from underwriters :

Underwriters a/c	Dr.	xx	
To Equity Shares Capital a/c			xx

(Based on net liability)

2. For commission due to underwriters :

Underwriters Commission a/c	Dr.	xx	
To Underwriters a/c			xx

(Based on gross liability)

3. Settlement :

Compare entry no.1 and 2 and determine net amount to be received or paid and pass the journal entry for money received or paid.

PART B : CLASSWORK SECTION

Q. 1. Export Ltd. incorporated on 1st January, 2017 issued a prospectus inviting applications for 5,00,000 Equity shares of ₹ 10 each at 20% premium.

The whole issue was fully underwritten by Kapoor, Bhora, Dalal and Mehta as follows:

Kapoor	2,00,000 Shares
Bhora	1,50,000 Shares
Dalal	1,00,000 Shares
Mehta	50,000 Shares

Applications were received for 4,50,000 shares of which marked applications were as follows :

Kapoor	2,20,000 Shares
Dalal	90,000 Shares
Bhora	1,10,000 Shares
Mehta	10,000 Shares

You are required to find out the liabilities of individual underwriters and show Journal entries when underwriters' commission is payable at 2.5%.

Q. 2. X Ltd. made a public issue of 5,00,000 equity shares of ₹ 10 each, ₹ 3 payable on application. The entire issue was underwritten by five underwriters as follows :

A	25%
B	25%
C	20%
D	20%
E	10%

Under the underwriting terms, a commission of $2^1/_2$%, was payable on the amount under written. Further the underwriter was at a liberty to apply, during the tenure of public issue, for any number of shares, in which case he is entitled to a brokerage equal to $^1/_2$% of the par value of shares so applied for.

Applications received were to be analysed on the basis of marking of underwriter, who was to be given credit for the number of applications received bearing the marking. Application received directly by the company were earmarked as "unmarked application" and these are to be credited to all the underwriters in the ratio of their respective underwriting commitment. If, as a result of this, a surplus arises to any underwriter as compared to his commitment, such surplus was to be distributed amongst the remaining underwriters in the ratio of their respective underwriting commitment.

As result of the issue the following applications were received :

Marked Applications

A	1,30,000 Shares
B	1,20,000 Shares
C	80,000 Shares
D	80,000 Shares
E	45,000 Shares
Unmarked Applications	15,000 Shares
	4,70,000 Shares

Included in the number of application mentioned against C in the above table was an application made by C himself for 10,000 shares. The underwriters were informed of the amounts due to or receivable from them, the amounts were duly received or paid.

Show in a single journal entry the amounts so received or paid. All working should form part of your answer.

Q. 3. Libra Ltd. came up with an issue of 20,00,000 equity shares of ₹ 10 each at par 5,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters - Anand, Vijay and Ashok - equally, with firm underwriting of 50,000 shares each. Subscriptions totalled 12,97,000 shares including the marked forms which were :

Anand	4,25,000 Shares
Vijay	4,50,000 Shares
Ashok	3,50,000 Shares

The amounts payable on application and allotment were ₹ 2.50 and ₹ 2 respectively. The agreed commission was 2.5%.

Pass summary journal entries for :

(a) the allotment of shares to the underwriters;

(b) the commission due to each of them, and

(c) the net cash paid and / or received.

Q. 4. Sardar Limited issued to public 1,50,000 equity shares of ₹100 each at par ₹ 60 per share was payable along with application and the balance on allotment. The issue was underwritten equally by Ali, Bali and Charlie for a commission of 2.5%. Applications for 1,40,000 shares were received as per details below :

Underwriter	Firm Application	Marked Application	Total
Ali	5,000	40,000	45,000
Bali	5,000	46,000	51,000
Charlie	3,000	34,000	37,000
Unmarked Applications			7,000
			1,40,000

It was agreed to credit the unmarked applications equally to Ali and Charlie. Sardar Limited accordingly made the allotment and received the amounts due from the public. The underwriters settled their accounts.

Prepare a statement showing the liability of the underwriters

Q. 5. The following shares were issued and underwritten as below :

Alpha	5,000 Shares
Beta	3,000 Shares
Gama	2,000 Shares

There is firm underwriting :

Alpha	1,200 Shares
Beta	200 Shares
Gama	600 Shares

The total subscriptions including firm underwriting was 8,200 shares and the forms included the following "marked" forms.

Alpha	1,400 Shares
Beta	500 Shares
Gama	1,200 Shares

Show the allocation of liability of the underwriters.

Q. 7. A joint stock company resolved to issue 10 lakh equity shares of ₹10 each at a premium of ₹1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

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

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

Marked applications were as follows:

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

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

(i) Prepare a statements calculating underwriters' liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

Q. 8. Abrol Ltd. offered to the public 5,000, 9% mortgage debentures of ₹ 100 each at Rs.105 and 80% of the issue was underwritten by Smart Bulls for maximum commission allowed by law. Applications were received from public for 4,000 debentures which were allotted. Show the balance sheet of the company.

Q. 10. Plentiful Ltd. comes out with a public issue of on 1.1.2016 of 10,00,000 equity shares of ₹ 10 each at a premium of 5%.₹ 2.50 is payable on application (on or before 31.3.2016) and ₹ 3.00 on allotment (30.6.2016) including premium. The allotment resolution was passed on 1st April 2016.

The issue is underwritten by two underwriters – Seth and Shetty – equally the commission being 2.5% of the issue price. Each of the underwriters underwrites 20,000 shares firm. Subscriptions total 9,60,000 shares, the distribution of forms being:

Seth: 5,20,000; Shetty 3,60,000 and unmarked forms : 80,000.

One of the allottees (using forms marked with the name of Seth) for 2,00,000 shares, fails to pay the amount due to allotment, all other money due being received in full including any due from the shares devolving upon the underwriters. The commission due is paid separately.

The shares of the indifferent allottee are finally forfeited by 30.9.2016 and re-allotted for payment in cash for ₹ 4 per share including premium.

You are required to pass summary journal entries to record the above events and transaction (including cash).

CHAPTER-4 INTERNAL RECONSTRUCTION

PART - A : THEORY SECTION

Internal Reconstruction means reconstructing the balance sheet position of the company without liquidating the company. The main purpose of the reconstruction scheme is to write off all fictitious assets and goodwill. For this purpose the company, creates an "artificial surplus" by the adoption of the following course :

(a) By utilising existing reserves
(b) By revaluation of existing assets
(c) By claims fully / partially waived by creditors or Debentureholders
(d) By reduction of share capital

The scheme is required to be approved by a special resolution of shareholders and by the High Court. In order to implement the scheme a special account called "Capital Reduction Account" is used and when the balance sheet is presented after implementing the scheme the words "And Reduced" should be added with the name of the company if ordered by the court.

Journal Entries

1. For utilisation of the existing reserves (if specified)

Reserves A/c	Dr.	xx	
To Capital Reduction A/c			xx

2. For revaluation of assets

Assets A/c	Dr.	xx	
To Capital Reduction A/c			xx

3. For claims waived by creditors / debentureholders

Creditors / Debentures A/c	Dr.	xx	
To Capital Reduction A/c			xx

4. For contingent liability cancelled

No Entry

(Because the balance sheet value of such liability is already nil)

Note :Examples of Contingent Liability (Uncertain liabilities)

1. Liability on Bills discounted
2. Capital Expenditure Commitment
3. Arrears of Dividend on Preference Shares

5. For contingent liability settled

Capital reduction A/c	Dr.	xx	
To Cash / Bank A/c			xx

(Since the book value of contingent liability is already nil, the entire settlement amount is treated as loss)

6. For reconstruction expenses

Capital Reduction A/c	Dr.	xx	
To Cash / Bank A/c			xx

7. For reduction of share capital

(a) When face value of the shares is reduced

Share Capital (Old) A/c	Dr.	xx	
To Share Capital (New) A/c			xx
To Capital Reduction A/c			xx

(Replacement Entry)

(b) When only paid up value is reduced

Share Capital A/c	Dr.	xx	
To Capital reduction A/c			xx

(Reduction Entry)

Note : If in the question, no specification is given, it should be assumed that the face value is reduced and replacement entry should be passed.

8. For writing off fictitious assets, goodwill & Accumulated losses

Capital reduction A/c	Dr.	xx	
To Fictitious Assets A/c			xx
To Goodwill A/c			xx
To Profit & Loss A/c			xx

(These should be written off even if it is not specified in the question)

9. For credit Balance in Capital Reduction A/c, if any

Capital Reduction A/c	Dr.	xx	
To Capital Reserve A/c			xx

(Always to be done)

Surrender of shares

Under this scheme, the shareholders are expected to return a part of their holdings back to the company, which the company can reissue to the creditors and / or debentureholders to settle their dues. (It is technically a transfer of ownership by shareholders in favour of creditors / Debentureholders).

Journal Entries

(1) Entry for Surrender of shares :

Equity Share Capital A/c	Dr.	xx	
To Share Surrender A/c			xx

(2) Entry for Reissue of surrendered shares to creditors or debentures

(a) As Equity Shares

Share Surrender A/c	Dr.	xx	
To Equity Share Capital A/c			xx

(b) As Preference Shares

Share Surrender A/c	Dr.	xx	
To Preference Share Capital A/c			xx

(No special Entry is required to convert surrendered Equity shares into preference shares as the shares are already with the company)

(3) Entry for cancellation of liability so settled

Creditors / Debentures A/c	Dr.	xx	
To Capital Reduction A/c			xx

(4) Balance in the share surrender a/c not utilised is transferred to Capital Reduction A/c (i.e. cancelled)

Share Surrender A/c	Dr.	xx	
To Capital Reduction A/c			xx

PART - B : CLASS WORK SECTION

Q. 1. The following is the summarised Balance Sheet of Weak Ltd. as on 31.3.2012 :

Liabilities	₹	Assets	₹
Equity shares of ₹ 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of ₹ 100 each	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% debentures of ₹ 100 each	40,00,000	Current assets (Excl. Bank Bal.)	1,00,00,000
Sundry creditors	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		**2,41,00,000**

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debentureholders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

Q. 2. The Balance Sheet of Neptune Ltd., as on 31.3.2011 is given below :

Liabilities	₹	₹	Assets	₹
80,000 Equity shares of ₹ 10 each fully paid		8,00,000	Freehold Property	5,00,000
			Plant & Machinery	1,80,000
5,000, 6% Cumulative preference shares of ₹100 each fully paid		5,00,000	Trade investment (at cost)	1,70,000
			Sundry debtors	4,50,000
6% Debentures (secured by freehold property)	3,75,000		Stock in trade	2,00,000
Arrear interest	22,500	3,97,500	Deferred advertisement expenditure	1,50,000
Sundry creditors		17,500	Profit and Loss A/c	3,65,000
Directors Loan		3,00,000		
		20,15,000		**20,15,000**

The Court approved a scheme of re-organisation to take effect on 1.4.2011 and the terms are given below :

(i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance equity shares of ₹ 2 each to be allotted.

(iii) Arrear of debenture interest to be paid in cash.

(iv) Debentureholders agreed to take one freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(v) Deferred advertisement expenditure to be written off.

(vi) Stock value to be written off fully in the books.

(vii) 50% of the Sundry Debtors to be written off as bad debt.

(viii) Remaining freehold property (after takeover by debentureholders) to be valued at ₹ 3,50,000.

(ix) Investment sold out for ₹ 2,00,000.

(x) 80% of the Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.

(xi) Company's contractual commitments amounting to ₹ 5,00,000 to be cancelled by paying penalty at 3% of contract value.

(xii) Cost of reconstruction scheme is ₹ 20,000.

Show the Journal entries to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme.

Q. 3. The following was the Balance Sheet of Ever Hopeful Ltd. as on 31st March, 2011.

Liabilities	**₹**	**Assets**	**₹**
Equity share capital in	5,00,000	Land & Building	2,00,000
₹100 each shares		Plant & Machinery	2,00,000
10% Preference Capital in		Invention & Promotion	
₹ 100 each shares	3,00,000	Expenses	1,00,000
12% convertible debentures	90,000	Discount & Issue Expenses	
Loan from Bankers (secured)	1,10,000	on shares & Debentures	30,000
Capital Reserve	40,000	Profit & Loss A/c	2,80,000
Creditors	1,60,000	Stock in hand	3,00,000
Securities premium	10,000	Debtors	1,00,000
	12,10,000		**12,10,000**

It was believed that worst was now over and Company's New Invention was certain to bring sizeable profit in future. But at present the Additional working capital was badly required. The dividend on Preference Shares was in arrears for the last three years. The company had a very valuable property which stood highly understated in the Balance Sheet and which it could not afford to sell, the said being required for the business.

In view of these shareholders and the creditors agreed upon the following scheme of reconstruction.

1. All fictitious assets including invention and promotion expenses were to be written off.
2. ₹ 30,000 from Debtors, ₹ 2,00,000 from stock and ₹ 1,50,000 from plant and machinery were to be written off.
3. The convertible debentureholders were given the option of subscribing Equity shares of ₹ 30 each upto 50% of their face value and subscribing preference shares of ₹ 50/- each upto 25% of their face value and the remaining 25% was to be paid to them in cash. All debenture holders exercised the option.
4. All reserves were to be utilised.
5. The creditors being unsecured agreed to reduce their claim by 25% on the condition that they will be paid off before 31st March, 2013. They also agreed not to charge any interest till the date of payment.
6. Preference shares were reduced to ₹ 50 per share and equity shares were reduced to 30 per share.
7. Land & Building were revalued at such a figure so as to put through the entire scheme.
8. Bankers were to be paid off fully. For this purpose the company was to issue 6,000 equity shares of ₹ 30 each for cash.
9. The arrears of dividend on preference shares is cancelled.

Assuming that the scheme had been duly sanctioned by the Court, prepare the Capital Reduction Account.

Q. 4. The Balance Sheet of Fortune Ltd. as on 31st March, 2011 was as follows :

Liabilities	**₹**	**Assets**	**₹**
Share Capital		Fixed Assets	5,14,000
6,000 Equity share of		Cash at Bank	2,80,000
₹ 60 each ₹ 30/- paid up	1,80,000	Profit & Loss A/c	8,60,000
5% First Debentures	3,00,000		
6% Second Debentures	6,00,000		
Unsecured Creditors	4,50,000		
Creditors for Expenses	1,24,000		
	16,54,000		**16,54,000**

Ms. Simple holds the First Debentures for ₹ 3,00,000 and Second Debentures of ₹ 3,00,000. She is also unsecured creditors for ₹ 90,000.

Ms. Dimple holds second debentures for ₹ 3,00,000/- and is an unsecured creditors for ₹ 60,000.

The following scheme of reconstruction was proposed :

(1) Ms. Simple is to cancel ₹ 2,10,000 of total debt owing to her, to advance ₹ 30,000 in cash and to take new 7% Debentures (In cancellation of those already held) for ₹ 5,10,000 in full satisfaction of all her claims.

(2) Ms. Dimple to accept ₹ 90,000 in cash in satisfaction of all her claims.

(3) Unsecured Creditors (other than Simple and Dimple) are to accept the allotment of 20,000 fully paid equity shares of ₹ 7.50 each in satisfaction of 75% of their claims and the balance of 25% is to be postponed and to be payable at the end of two years.

(4) Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled thus making the shares of ₹ 7.50 each fully paid up.

(5) The nominal share capital is to be increased to 50,000 equity shares.

Assuming that the scheme is duly approved, give the necessary journal entries and the Balance Sheet of the Company after the scheme has been put into effect.

Ans.4.

1.	5% Debentures A/c.	Dr.	3,00,000	
	6% Debentures A/c.	Dr.	3,00,000	
	Creditors A/c.	Dr.	90,000	
	Bank A/c.	Dr.	30,000	
	To Capital Reduction A/c.			2,10,000
	To 7% Debentures A/c.			5,10,000
2.	6% Debentures A/c.	Dr.	3,00,000	
	Creditors A/c.	Dr.	60,000	
	To Capital Reduction A/c.			2,70,000
	To Bank A/c.			90,000
3.	Creditors A/c.	Dr.	2,25,000	
	To Capital Reduction A/c.			75,000
	To ESC (FV ₹ 7.5) A/c.			1,50,000
4.	Equity share Final Call A/c.	Dr.	1,80,000	
	To Equity Share Capital A/c.			1,80,000
5.	Bank A/c.	Dr.	1,80,000	
	To ESFC A/c.			1,80,000
6.	Equity Share Capital (FV ₹ 60) A/c.	Dr.	3,60,000	
	To ESC (FV ₹ 7.5) A/c.			45,000
	To Capital Reduction A/c.			3,15,000
7.	Capital Reduction A/c.	Dr.	8,60,000	
	To P & L A/c.			8,60,000
8.	Capital Reduction A/c.	Dr.	10,000	
	To Capital Reserve A/c.			10,00,000

Subdivision and Consolidation of Share

Subdivision :

Old $\rightarrow$ 10,000 x ₹ 100 = ₹ 10,00,000 Same

New $\rightarrow$ $\uparrow$10,00,000 x $\downarrow$ ₹ 1 = 10,00,000 $\therefore$ NPNL

ESC (FV ₹ 100) A/c. Dr. 10,00,000

To ESC (FV ₹ 1) A/c. 10,00,000

Consolidation :

Old $\rightarrow$ 10,00,000 x ₹ 1 = ₹ 10,00,000 Same

New $\rightarrow$ $\downarrow$ 10,000 x $\uparrow$ ₹ 100 = ₹ 10,00,000 $\therefore$ NPNL

ESC (FV ₹ 1) A/c. Dr. 10,00,000

To ESC (FV ₹ 100) A/c. 10,00,000S

Q. 5. Fair-weather Limited ran into a patch of bad financial management and its affairs were handed over to a Receiver appointed by the debenture-holders. Its statement of affairs was as given below :

	Book Value Assets	Realisable Value
	₹	₹
Land & Building	8,00,000	10,00,000
Plant & Machinery	12,00,000	7,00,000
Stock in Trade	8,00,000	5,50,000
Trade Debtors	9,50,000	4,75,000
Cash	1,50,000	1,50,000
	39,00,000	28,75,000
Deduct : 7% First Mortgage Debenture		12,50,000
		16,25,000
Deduct: 8% Second Mortgage Debenture		20,00,000
Deficiency Regarding Second Debenture		3,75,000
Unsecured Creditors		4,50,000
Deficiency regarding unsecured creditors		8,25,000
Contributories :		
40,000 Equity Shares of ₹ 10 each fully paid up	4,00,000	
60,000 Equity Shares of ₹ 10, ₹ 5 per share paid up	3,00,000	7,00,000
Deficiency regarding contributories		15,25,000

All the mortgage debentures are held between two groups of individuals X and Y as indicated below :

	X and his Friends	Y and his Friends
	₹	₹
First Mortgage Debentures	7,50,000	5,00,000
Second Mortgage Debentures	12,50,000	7,50,000

In addition, X and Y rank as unsecured creditors to the extent of ₹ 1,50,000 and ₹ 1,00,000 respectively. X also hold 10,000 fully paid equity shares and 4,000 partly paid equity shares in the company.

The following scheme of reconstruction was agreed upon :

(i) the partly paid up equity shares would be fully paid up by making a call; after the shares are fully paid, all equity shares other than shares of Mr. X would be reduced to shares of Re.1 each fully paid up.

(ii) X will give up all his claims regarding debentures and other credits, cancel all his equity shares and would receive in return 10% mortgage debentures of ₹ 18 lakhs and cash of ₹ 89,000.

(iii) Y will give up all his claims on debentures and credits he will bring in cash of ₹ 75,000 and in consideration would be issued with 10% mortgage debentures of ₹ 10 lakhs.

(iv) the rest of the sundry creditors agree to give up $12^1/_2$% of their claims get equity share of Re.1. each fully paid up allowed to them for 50% of their net claims and await discharge of the balance in due course.

Pass journal entries (narrations need not be given) to give effect to the above proposal and prepare the Balance Sheet after reconstruction.

Working should form part of your answer.

Q. 6. X Ltd., whose Balance sheet as at 31st March, 2011 appears below formulated a scheme of reconstruction, details of which follow and secured approval of all concerned.

Liabilities		₹	Assets	₹
Equity share capital :			Fixed Assets	5,60,000
50,000 shares of ₹ 20 each			Patents and copyrights	40,000
₹ 10 paid		5,00,000	Investments at cost	32,500
8% Preference Share - capital			(Market value ₹ 27,500)	
40,000 Shares of ₹ 100 each			Current Assets	4,24,500
₹ 75 paid up		3,00,000	Profit and Loss A/c	2,14,000
Secured Loans :				
9% Debentures	3,00,000			
Int. accrued & due	54,000	3,54,000		
Bank Overdraft		75,000		
Sundry Creditors				
(including interest of				
₹ 7,500 due to Bank)		42,000		
		12,71,000		**12,71,000**

Preference dividend is in arrears for one year.

(1) Preference shareholders to give up their claims; inclusive of dividends, to the extent of 30% and desire to be paid off.

(2) Debenture holders agree to give up their claims to interest in consideration of their rate of interest being enhanced to 10%.

(3) Sundry Creditors would like to grant a discount of 5% if they were to be paid off immediately.

(4) Balance on Profit and Loss Account, Patents and copyrights and 25% of the total Sundry Debtors of ₹ 60,000 to be written off. Fixed assets to be written down by ₹ 7,000. Investments to reflect their market value.

(5) To the extent not specifically stated, equity shareholders suffer no reduction of their rights.

(6) Costs of reconstruction ₹ 1,675.

(7) Bank agrees to give up 50% of their interest outstanding in consideration of their claims being paid off at once.

Pass Journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off the parties and to leave a closing cash balance of ₹ 10,000.

Q. 7. The Balance Sheet of H Ltd. as on June 31st March, 2011 was as follows :

Liabilities		**₹**	**Assets**		**₹**
Share Capital Authorised			Freehold land & Building		34,000
Issued and Fully paid :			Plant Tools and Dies	27,300	96,000
10,000 6% cumulative pref. shares					
of ₹ 10 each		1,00,000	Investments		15,000
15,000 ordinary sh. of ₹ 10 each		1,50,000	Stocks		42,500
		2,50,000	Debtors		53,400
7% Debentures	60,000		Research & Development		
Interest due thereon	4,200	64,200	Expenditure		18,000
Bank overdraft secured on freehold			Profit & Loss A/c		98,000
Land & Building & Plant		20,000			
Creditors		50,000			
		3,84,200			**3,84,200**

The scheme of reorganisation detailed below has been agreed by all the interested parties and approved by the court. You are required to prepare :

(i) The Journal entries recording the transactions in the books, including cash; and

(ii) The balance sheet of the company as on April 1, 2011 after completion of the scheme.

(1) The following assets are to be revalued as shown below : Plant ₹ 59,000; Tools and dies ₹ 15,000; stock ₹ 30,000; and debtors ₹ 48,700.

(2) The research and development expenditure and the debit balance of Profit and Loss Account are to be written off.

(3) Piece of land recorded in the books at ₹ 6,000 is valued at ₹ 14,000 and is to be taken over by the debentureholders in part repayment of principal. The remaining freehold land and buildings are to be revalued at ₹ 40,000.

(4) A creditor for ₹ 18,000 has agreed to accept a second mortgage debenture of 10% p.a. secured on the plant for ₹ 15,500 in settlement of his debt. Other creditors totalling ₹10,000 agree to accept a payment of ₹ 0.85 in the rupee for immediate settlement.

(5) The investments at a valuation of ₹ 22,000 are to be taken over by the bank in settlement of Bank Over Draft.

(6) The ascertained loss is to be met by writing down the ordinary shares to Re.1 each and the preference to ₹ 8.00 each. The authorised share capital is to be increased immediately to the original amount.

(7) The ordinary shareholders agreed to subscribe for two new ordinary shares at par for every share held. This cash is fully received.

(8) The cost of the scheme are ₹ 1,500. These have been paid and are to be written off. The debenture interest has also been paid.

Ans. 7.

1.	Capital Reduction A/c.	Dr.	1,82,500	
	To Plant A/c.			37,000
	To Tools & Dies A/c.			12,300
	To Stock A/c.			12,500
	To Debtors A/c.			4,700
	To R & D Exp. A/c.			18,000
	To P & L A/c.			98,000
2.	7% Debentures A/c.	Dr.	14,000	
	To Freehold Land & Bldg. A/c.			6,000
	To Capital Reduction A/c.			8,000
3.	Freehold Land & Bldg A/c.	Dr.	12,000	
	To Capital Reduction A/c.			12,000
4.	Creditors A/c.	Dr.	28,000	
	To Bank A/c.			8,500
	To 10% Second Mor. Deb. A/c.			15,500
	To Capital Reduction A/c.			4,000
5.	Investment A/c.			
	To Capital Reduction A/c.	Dr.	7,000	
				7,000

6.	Bank O/D A/c.	Dr.	20,000	
	Bank A/c.	Dr.	2,000	
	To Investment A/c.			
7.	ESC (FV ₹10) A/c.	Dr.	1,50,000	
	To ESC (FV ₹ 1) A/c.			15,000
	To Capital Reduction A/c.			1,35,000
8.	6% PSC (FV ₹10) A/c.	Dr.	1,00,000	
	To 6% PSC (FV ₹ 8) A/c.			80,000
	To Capital Reduction A/c.			20,000
9.	Bank A/c.	Dr.	30,000	
	To ESC A/c.			30,000
10.	Capital Reduction A/c.	Dr.	1,500	
	To Bank A/c.			1,500
11.	Debenture Interest A/c.	Dr.	4,200	
	To Bank A/c.			4,200
12.	Capital Reduction A/c.	Dr.	2,000	
	To Capital Reserve A/c.			2,000

Q. 8. The Balance Sheet of M/s. Raman Ltd. as at 31st March, 2011 is as follows :

Liabilities	**₹**	**Assets**	**₹**
Paid up Capital		Fixed Assets :	
8,000 Equity shares of ₹ 100		Land, Building, Machinery	14,00,000
each fully paid	8,00,000	Current Assets	
Secured Loan :		Stock	1,00,000
8% Debentures	14,00,000	Sundry Debtors	1,43,000
Accrued Interest on Debentures	70,000	Investments	15,000
Sundry Creditors	4,50,000	Cash at Bank	2,000
Income Tax Liability	10,000	Profit & Loss A/c	10,70,000
	27,30,000		**27,30,000**

The fixed assets are heavily overvalued. A scheme of reorganisation was prepared and passed. The salient points of the scheme are the following :

(1) Each share shall be sub divided into ten fully paid equity shares of ₹ 10 each.

(2) After such sub division, each share holder shall surrender to the Company 90% of his holding for the purpose of re-issue to Debenture-holders and Creditors so far as required and otherwise for cancellation.

(3) Of these shares surrendered 50,000 Equity Shares of ₹ 10 each shall be converted into 8% preference shares of ₹ 10 each fully paid for debenture holders.

(4) The debenture-holder's total claim shall be reduced to ₹ 5,00,000. This will be satisfied by the issue of 50,000 preference shares of ₹ 10 each fully paid.

(5) The claim of sundry creditors shall be reduced by 80% and balance shall be satisfied by allotting them equity shares of ₹ 10 each, fully paid from the shares surrendered.

(6) Shares surrendered and not-reissued shall be cancelled.

Assuming that the scheme is duly approved by all parties interested and by the court, draft necessary journal entries and Balance Sheet of the Company after the scheme has been carried into effect.

Q. 9. Following is the Balance Sheet as at March 31, 2011 : **(₹ in '000)**

Liabilities	**Max Ltd.**	**Mini Ltd.**	**Assets**	**Max Ltd.**	**Mini Ltd.**
Share Capital			Goodwill	20	----
Equity Shares of			Other Fixed	1,500	760
₹ 100 each	1,500	1,000	Assets		
9% Preference shares			Debtors	651	440
of ₹ 100 each	500	400	Stock	393	680
General Reserve	180	170	Cash at Bank	26	130
Profit & Loss Account	----	15	Own Debentures	192	----
12% Debentures of			(Nominal value ₹ 200)		
₹ 100 each	600	200	Discount on issue		
Sundry Creditors	415	225	of Debentures	2	----
			Profit & Loss Account	411	----
	3,195	**2,010**		**3,195**	**2,010**

On 1.4.2011, Max Ltd. adopted the following scheme of resconstruction :

(i) Each equity share shall be sub - divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 80,000 were sold at ₹ 98 and remaining own debentures were cancelled.

(iv) Debentureholders of ₹ 2,80,000 agreed to accept one machinery of book value of ₹ 3,00,000 in full settlement.

(v) Creditors, debtors and stocks were valued at ₹ 3,50,000, ₹ 5,90,000 and ₹ 3,60,000 respectively.

(vi) The Company paid ₹ 15,000 as penalty to avoid capital commitments of ₹ 3,00,000.

On 2.4.2011 a scheme of absorption was adopted. Max Ltd. would take over Mini Ltd. The purchase consideration was fixed as below :

(a) Equity shareholders of Mini Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Mini Ltd.

(b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Max Ltd. for every 5 preference shares held in Mini Ltd.

(c) Issue of one 12% debenture of ₹ 100 each of Max Ltd. for every 12% debentures in Mini Ltd.

You are required to give Journal entries in the books of Max Ltd.

Ans. **Journal**

Sr.No.	Particulars		Debt ₹	Credit ₹
(1)	Equity Share Capital (FV ₹100) A/c.	Dr.	15,00,000	
	To Equity Share Capital (FV ₹100) A/c.			15,00,000
	(Being equity shares reduced/sub-divided)			
(2)	Equity Share Capital (FV₹ 10) A/c	Dr.	7,50,000	
	To Capital Reduction A/c.			7,50,000
	(Being Shares surrendered)			
(3)	Capital Reduction A/c.	Dr.	13,500	
	To Cash / Bank A/c.			13,50,000
	(Being pref. dividend to arrears paid)			
(4)	Cash/ Bank A/c.	Dr.	78,400	
	To Own Debentures A/c.			76,800
	To Capital Reduction A/c.			1,600
	(Being debentures sold at profit)			
	WN:Selling Price (800 x 98)	78,400		
	Less : Weg. Avg. cost 2,00,000 X 1,92,000	76,800		
	80,000 ?	Profit 1,600		
(5)	12% Debentures A/c.	Dr.	1,20,000	
	To Own Debentures A/c.			1,15,200
	To Capital Reduction A/c.			4,800
	(Being debentures cancelled)			
(6)	12% Debentures A/c.	Dr.	2,80,000	
	Capital Reduction A/c.	Dr.	20,000	
	To Machinery A/c.			3,00,000
	(Being debentureholder settled)			
(7)	Creditors A/c.	Dr.	65,000	
	To Capital Reduction A/c.			65,000
	(Being creditors revalued)			
(8)	Capital Reduction A/c.	Dr.	5,27,000	
	To Debtors A/c.			61,000
	To Stock A/c.			33,000
	To Goodwill A/c.			20,000
	To P & L A/c.			4,11,000
	To Discount on Issue of Debentures A/c.			2,000
	(Being assets revalued and misc.exp. w/off)			

(9)	Capital Reduction A/c.	Dr.	15,000	
	To Bank A/c.			15,000
	(Being penalty paid)			
(10)	Capital Reduction A/c.	Dr.	2,45,900	
	To Capital Reserve A/c.			2,45,900
	(Being capital profit transferred)			
(11)	Business Purchased A/c.	Dr.	13,20,000	
	To Liquidator of Mini Ltd. A/c.			13,20,000
	(Being business purchased)			
(12)	Other Fixed Assets A/c.	Dr.	7,60,000	
	Debtors A/c.	Dr.	4,40,000	
	Stock A/c.	Dr.	6,80,000	
	Bank A/c.	Dr.	1,30,000	
	To Sundry Creditors A/c.			2,25,000
	To Debentures (12%) A/c.			2,00,000
	To Profit & Loss A/c.			15,000
	To Business Purchased A/c.			13,20,000
	To General Reserves A/c.			2,50,000
	(Being assets taken over)			
(13)	Liquidator of Mini Ltd. A/c.	Dr.	13,20,000	
	To Equity Share Capital A/c.			10,00,000
	To 9% Preference Share Capital A/c.			3,20,000
	(Being P.C. discharged)			
(14)	12% Debentures A/c. (Mini Ltd.)	Dr.	2,00,000	
	To 12% Debentures A/c. (Max Ltd.)			2,00,000
	(Being fresh debentures issued)			

CHAPTER - 5 AMALGAMATION, ABSORPTION AND EXTERNAL RECONSTRUCTION

As per Accounting Standard 14 issued by ICAI dealing with Accounting for Amalgamation. Purchase consideration consists of shares, debentures and cash given by purchasing company to shareholders of selling company. It means any payment made by purchasing company to selling company's debenture holders or creditors cannot be included in the purchase consideration, even liquidation expenses of selling company paid by purchasing company cannot be included in the purchasing consideration. If purchasing company decides to make any payment for debenture holders or creditors then first a fall purchasing company should take over debentures and creditors at amount payable (not book value) and then discharge them after takeover.

There are two methods to derived purchase consideration amount.

1) Net Assets Methods : Under this method purchase consideration will be

Revised value of Real Assets Takeover	x
Less : Revised value of outside liabilities Takeover	-x
Net Asset Takeover or Purchase Consideration	x

Purchase consideration will be discharge in the form of shares, debentures and cash by purchasing company.

2) Net Payment Methods : Under this method purchase consideration will be sum total of all payment made by purchasing company to shareholders of Selling company.

I) Accounting in the books of Selling Company

Close the books of Selling Company :

Following Accounts are to be opened in books of selling company.

1) Realisation A/c
2) Equity shareholders A/c
3) Preference shareholders A/c
4) Cash/ Bank A/c
5) Purchasing Company A/c
6) Share/ Debentures in purchasing company A/c

Step I

Record all balance sheet items in respective accounts at book value.

Liabilities	Where to Record
1) Equity share capital & reserves	Credit equity shareholder A/c
2) Preference share capital	Credit preference shareholders A/c
3) All remaining liabilities including debentures (whether takenover or not takenover)	Credit realisation A/c

Assets	Where to Record
1) Profit and loss A/c (Dr), Misc expenditure	Debit Equity shareholder A/c
2) Cash/Bank balance	
a) If taken over	a) Debit realisation A/c
b) If not taken over	b) Opening debit balance in cash A/c
3) All remaining assets (whether takenover or not takenover)	Debit realisation A/c

Step II

Record and Receive Purchase Consideration :

1) To Record Purchase Consideration

Purchasing Company A/c Dr.
To Realisation A/c

2) To Receive Purchase Consideration

Shares in Purchasing Company A/c Dr.
Debentures in Purchasing Company A/c Dr.
Cash A/c Dr.
To Purchasing Company A/c

Step III

Expenses of liquidation/ winding up/ realization to be recorded.

Realisation A/c Dr.
To Cash/ Bank A/c

Note : If the expenses are paid by purchasing company then they are not to be recorded in books of selling company. Entry will be directly passed in books of Purchasing Company.

Step IV

Disposal of asset liabilities not taken over

a) Disposal of assets

Cash/Bank A/c Dr.
To Realisation A/c

b) Disposal of liabilities

Realisation A/c Dr.
To Cash/ Bank A/c

Step V

Payment to preference share holders

Preference shareholders A/c Dr.
To Preference share/ Equity share in purchasing company A/c
To Cash A/c

Note : Any excess or short payment to preference shareholders represents Profit/ Loss to be transfer to realization A/c.

Step VI

Close Realisation A/c and transfer Profit or Loss of Equity shareholders A/c

a) If profit

Realisation A/c Dr.

To Equity shareholder A/c

b) If loss

Equity shareholders A/c Dr.

To Realisation A/c

Step VII

Payment to equity shareholders

Equity shareholders A/c Dr.

To Shares/Debentures in purchasing company A/c

To Cash/ Bank A/c

Note : Finally Equity shareholder A/c & other accounts should tally.

II) Accounting in the books of Purchasing Company

Journal Entries (Purchase method)

1) For business purchased

Business purchased A/c Dr

To Liquidators of selling company A/c

(At purchase consideration Amount)

2) For Discharge of P.C.

Discount on issue of debentures A/c Dr.

Liquidatiors of Selling company A/c Dr.

To Equity shares capital A/c

To Cash/ Bank A/c

To Share premium A/c

To Preference share capital A/c

To Debentures A/c

3) For Net Assets takenover

Sundry Assets (Revised value) Dr.

Goodwill A/c Dr.

To Sundry liabilities (Revised Value) A/c

To Capital Reserve A/c

To Business purchased A/c

4) Payments to creditors or debentures holders of selling company.

Debenture/Creditors A/c Dr.

Discount on issue of debentures A/c Dr

To equity share capital A/c

To new debentures A/c

To Cash/Bank A/c

5) For liquidation expenses of selling company paid by purchasing company.

Goodwill/Capital Reserve A/c Dr

To Cash/ Bank A/c

6) Fresh issues of shares

At par	At premium
Cash Bank A/c Dr. To Share capital A/c	Cash/ Bank A/c Dr. To Share capital A/c To Share premium A/c

7) Preliminary expenses, formation expenses etc paid.
Concerned expenses A/c /Profit & Loss A/c Dr.
To Cash/ Bank A/c

NOTES :

Special entries in books of purchasing company

These entries are to be passed exclusively in books of purchase company after passing entries for business purchased. These entries will not have any effect in books of Selling Company. Purchase Consideration calculation will also be as usual.

1) Cancellation of Inter Company debt :

Creditors A/c Dr
To Debtors A/c

Note : RBD should be always calculated on outside debtor excluding inter company debt.

2) Cancellation of Inter Company bills :

Bills payable A/c Dr.
To Bills receivable A/c

3) Cancellation of profit included on inter company stock:

Goodwill/ Capital Reserve A/c Dr.
To Stock A/c

4) For creation of Statutory Reserve.
Amalgamation Adjustment A/c Dr.
To Statutory Reserve A/c

INTRINSIC VALUE METHOD :

It is also called 'NET ASSET VALUE METHOD'. This method helps us to find out intrinsic value per share (real worth). It can be calculated as follows :

Particulars	P Company	S Company
Revised value of Assets	xx	xx
Less : Revised value of outside liabilities	(xx)	(xx)
Net Assets for shareholders	xx	xx
Less : Amount payable to pref. shareholders	(xx)	(xx)
Net Assets for equity shareholders	xxx	xxx
No. of equity shares	xx	xx
∴ Intrinsic value per share	xx	xx
(Net assets for equity shareholders ÷ No. of equity shares)		

Merger Method (Pooling of interest method) :

According to accounting standard 14 the following conditions should be satisfied if amalgamation is in the nature of merger :

1. All assets (including fictitious assets) & all liabilities (except equity share capital) should be taken over.
2. All above assets and liabilities are taken over at book value except to maintain uniform A/c policies.
3. Payment to equity shareholders of selling co. should be in form of equity share of purchasing Co. except for fractional shares.
4. Atleast 90% of equity shareholders of selling Co. in terms of face value should become share holders of purchasing co.
5. Business of selling co. should be continued by purchasing Co.

Other important Points :

1. Accounting in the books of selling co. would be usual (i.e. no change)
2. N.A.T.O. will be always equal to share capital of selling Co.
3. If P.C. is more than N.A.T.O. than the difference should be reduced from Reserves in following manner :
   (a) Revenue Reserve of Selling Co.
   (b) Revenue Reserve of Purchasing Co.
   (c) Capital Reserve of Selling Co.
   (d) Capital Reserve of Purchasing Co.
4. If P.C. is less than N.A.T.O. then the difference should be LOGICALLY credited to capital Reserve.

❖ N.A.T.O. – Means Net Assets Taken over by Purchasing Co.

PART - B : CLASS WORK SECTION

(I) ABSORPTION

Q. 1. Ajanta Limited agreed to acquire the business of Elora Limited as on 31st March, 2017. The Balance Sheet of Elora Limited as on that date was as under :

Liabilities	₹	Assets	₹
Paid - up Capital :		Fixed Assets :	
10,000, 12% Preference Shares		Land & Building	2,00,000
of ₹ 10 each	1,00,000	Machineries	1,00,000
20,000 Equity Shares of		Current Assets :	
₹ 10 each	2,00,000	Stock	2,00,000
Reserve	20,000	Debtors	50,000
Profit & Loss A/c	30,000	Cash & Bank Balance	35,000
7% Debentures	1,00,000	Miscellaneous Expenditure :	
Sundry Creditors	1,50,000	Preliminary Expenses	10,000
		Debenture Discount	5,000
	6,00,000		**6,00,000**

The consideration payable by Ajanta Limited was agreed as under :

(i) The Preference Shareholders of Elora Limited were to be allotted 14% Preference Shares of ₹ 1,10,000.

(ii) Equity Shareholders to be allotted six Equity Shares of ₹ 10 each issued at a premium of 10% and ₹ 3 cash against every five shares held.

7% Debentureholders of Elora Limited to be paid at 8% premium by issue of 9% Debenture at 10% discount.

While arriving at the agreed consideration, the Directors of Ajanta Limited valued Land & Building at ₹ 2,50,000, Stock ₹ 2,20,000 and Debtors at their book value subject to an allowance of 5% Doubtful Debts. Liquidation expenses are ₹ 5,000. Close the books of Elora Limited and show Journal of Ajanta Ltd.

Q. 2. Following is the Balance Sheet of Govind Limited as on 31st March, 2017 :

Liabilities	₹	Assets	₹
Share Capital :		Goodwill	4,00,000
20,000 Equity Shares of		Land and Building	15,60,000
₹ 100 each fully paid	20,00,000	Plant & Machinery	14,00,000
Reserve Fund	5,00,000	Patent Rights	3,50,000
Sinking Fund	1,00,000	Stock	2,00,000
Workmen's Accident		Sundry Debtors	4,00,000
Compensation Fund		Investment	1,00,000
(Estimated Liability ₹ 9,000)	50,000	Cash at Bank	1,30,000
Development Reserve	1,00,000		
Staff Provident Fund	1,50,000		
Sundry Creditors	1,40,000		
'A' Debentures	4,00,000		
'B' Debentures	10,00,000		
Loan from Ramkrishna Ltd.	1,00,000		
	45,40,000		**45,40,000**

Ramakrishna Limited absorbed Govind Ltd. on the date of its above Balance Sheet. The terms being :

1. The payment of cost of absorption not exceeding ₹ 8000/-.
2. The repayment of the 'B' Debentures at a premium of 5% in cash.
3. The discharge of 'A' Debentures at a premium of 10% by the issue of 6% debentures in Ramakrishna Limited at 20% Discount.
4. A payment of ₹ 15 per share in cash.
5. Allotment of one 7% preference share of ₹ 100 each fully paid and five equity shares of ₹ 10 each fully paid for every four equity shares in Govind Ltd.
6. The actual expenses of absorption came to ₹ 10,000/-.
7. Stock of Govind Limited includes goods valued at ₹ 56,000/- purchased from Ramakrishna Limited which company invoices goods at cost plus $16^2/_3$%.
8. The directors of Ramakrishna Limited decided to create a provision of 5% on sundry debtors against doubtful debts.
9. Contingent liabillity ₹ 1,00,000 of Govind Ltd. settled by Ramakrishna Ltd. at ₹ 20,000.
10. Debtors of Govind Limited includes ₹50,000 due from Ramakrishna Ltd.

Pass Journal Entries in the books of Ramakrishna Limited.

Q. 3. The All India Company Limited agrees to acquire, as a going concern, the business of the Presidency Company Limited on the basis of the Vendor's balance sheet at 31st March, 2017, which is follows :

Liabilities	₹	Assets		₹
Authorised Capital		Freehold property		2,50,000
25,000 shares of ₹ 50 each	12,50,000	Plant and Machinery		50,000
Issued Capital		Stock		3,00,000
20,000 Shares of ₹ 50 each	10,00,000	6% Government paper		10,000
Called -up Capital		Debtors	2,30,000	
20,000 Shares ₹ 30 each called up	6,00,000	Less : Reserve	10,000	2,20,000
Reserve fund	1,25,000	Bank		30,000
Creditors	75,000			
Profit and Loss Account	60,000			
	8,60,000			**8,60,000**

The All India Company Limited took over all the assets and liabilities of the vendor company, subject to the retention out of such assets of ₹ 13,500 to provide for cost of liquidation, Income tax, etc., and to satisfy dissenting shareholders.

The consideration for the sale is the allotment to the shareholders in the vendor company of one share of ₹ 100 (₹ 50 paid-up) in the All India Company for every three shares in the Presidency Company Limited.

The market value of the All India Company's shares, which are ₹ 50 paid-up, at the date of sale is ₹ 60 each. The liquidator of the vendor company has paid out of ₹ 13,500 retained, costs of liquidation amounting to ₹ 2,500 ; income-tax ₹ 7,500 and dissenting shareholders of 100 shares @ ₹ 35 per share.

The sale and purchase were carried through in terms of the agreement.

Prepare ledger accounts to close the books of selling company.

Q. 4. Given below are the summarized balance sheets of Vasudha Ltd. and Vaishali Ltd as at 31st March, 2017.

(Amount in ₹)

Liabilities	Vasudha Ltd.	Vaishali Ltd.	Assets	Vasudha Ltd.	Vaishali Ltd.
Issued Share Capital:			Factory Building	2,10,000	1,60,000
Equity Shares of ₹10 each	5,40,000	4,03,300	Trade Receivables	2,86,900	1,72,900
General Reserves	86,000	54,990	Inventory	91,500	82,500
Profit & Loss A/c	66,000	43,500	Goodwill	50,000	35,000
Trade payables	44,400	58,200	Cash at Bank	98,000	1,09,590
	7,36,400	**5,59,990**		**7,36,400**	**5,59,990**

Goodwill of the Companies Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹ 75,000 and ₹ 50,000 respectively. Factory Building of Vasudha Ltd is worth ₹ 1,95,000 and of Vaishali Ltd ₹ 1,75,000.Inventory of Vaishali has been shown at 10% above of its cost.

It is decided that Vasudha Ltd will absorb Vaishali Ltd. by taking over its entire business by issue of shares at the Intrinsic Value.

You are required to draft the balance sheet of the Vasudha Ltd after putting through the scheme assuming that the assets & liabilities of Vaishali Ltd. were incorporated in Vasudha Ltd at fair value and assets and liabilities of Vasudha Ltd. have been carried at carrying values only.

Q. 5. The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2017:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
	₹	₹		₹	₹
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of			**Current Assets:**		
₹ 10 each	6,00,000	3,00,000	Inventory	2,40,000	3,20,000
10% Pref. Shares of			Trade Receivable	5,00,000	2,90,000
₹ 100 each	2,00,000	1,00,000	Cash at Bank	1,10,000	40,000
Reserves and Surplus	3,00,000	2,00,000			
Secured Loans:					
12% Debentures	2,00,000	1,50,000			
Current Liabilities:					
Trade Payable	2,50,000	1,50,000			
	15,50,000	**9,00,000**		**15,50,000**	**9,00,000**

Details of Trade receivables and trade payables are as under:

Trade Payables	A Ltd.	B Ltd
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	**1,50,000**
Trade Receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	1,40,000	1,00,000
	5,00,000	**2,90,000**

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms:

(i) 8 Equity Shares of ₹10 each will be issued by A Ltd. at par against 6 shares of B Ltd.

(ii) 10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹100 each at par in A Ltd.

(iii) 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry Creditors of B Ltd. include ₹ 10,000 due to A Ltd.

Prepare:

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

Q. 6. The Balance Sheet of X Co. Ltd. and Y Ltd. on 31st March, 2017 are as follows :

Balance Sheet of X Co. Ltd.

Liabilities		**₹**	**Assets**		**₹**
Share Capital :			Fixed Asset :		
Authorised Capital of			Goodwill	80,000	
10,000 shares of ₹ 100 each		10,00,000	Others	8,00,000	8,80,000
Issued Capital:			Current Assets,		
10,000 shares of ₹ 100 each fully paid		10,00,000	Loans and Advances		9,00,000
Reserves & Surplus					
Capital Reserve	2,00,000				
General Reserve	70,000	2,70,000			
Unsecured Loans		2,00,000			
Current Liabilities & Provisions					
Sundry Creditors		3,10,000			
Total		**17,80,000**	**Total**		**17,80,000**

Balance Sheet of Y Ltd.

Liabilities	Amount	Assets		Amount
Share Capital		Fixed Assets		16,00,000
Authorised Capital 2,00,000 shares		Current Assets,		
of ₹ 10 each	20,00,000	Loans and Advances:		
Issued Capital:		Bank	2,00,000	
80,000 shares of ₹ 10 each fully paid	8,00,000	Others	6,60,000	8,60,000
Reserves and Surplus :				
General Reserve	8,00,000			
Secured Loans	5,00,000			
Current Liabilities & Provisions				
Sundry Creditors	3,60,000			
Total	**24,60,000**	**Total**		**24,60,000**

It was proposed that X Co. Ltd. should be taken over by Y Co. Ltd. The following arrangements were accepted by both the companies.

(a) Goodwill of X Co. Ltd. is considered valueless.

(b) Arrears of depreciation in X Co. Ltd. amounted to ₹ 40,000

(c) The holder of every 2 shares in X Co. Ltd. was to receive.

  (i) as fully paid 10 shares in Y Co. Ltd. and

  (ii) so much cash as is necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their Balance Sheet, subject to necessary adjustment with regard to Goodwill and depreciation in X Co. Ltd.'s Balance Sheet.

You are required to :

1. Determine the composition of purchase consideration
2. Show the Balance Sheet after absorption.

Q. 7. The Balance Sheet of Anand Ltd. and Dany Ltd. as at 31st December, 2016 were as follows:

Particualrs	Anand	Danny	Particulars	Anand	Danny
Equity Shares of ₹10	3,00,000	2,00,000	Fixed Assets	2,50,000	1,75,000
Reserves	75,000	50,000	Stock in trade	47,500	37,500
Profit & Loss A/c	37,500	30,000	Debtors	70,000	50,000
Sundry Creditors	18,750	15,000	Cash and Bank	58,750	30,000
			Preliminary Exp.	5,000	2,500
	4,31,250	**2,95,000**		**4,31,250**	**2,95,000**

Anand Ltd. took over and absorbed Danny Ltd., as on 1st July, 2017. No Balance Sheets were prepared on the date of take over. But the following information is made available :

(a) In the six months ended 30 June, 2017 Danny Ltd. made net profits of ₹ 30,000 after providing for depreciation at 10% per annum on fixed assets.

(b) Anand Ltd., during that period had made net profits of ₹ 72,500 after providing for depreciation at 10% per annum on the fixed assets

(c) Both the companies had distributed dividends of 10% on 1st April, 2017.

(d) Goodwill of Danny Ltd. on the date of take over, was estimated at ₹ 12,500 and it was agreed that the stocks of Danny Ltd. would be appreciated by ₹ 7,500 on the same date.

(e) Anand Ltd. to issue shares at par to shareholders of Danny Ltd. on the basis of the intrinsic value of its shares on the date of take over.

Draft the Balance Sheet of Anand Ltd. after absorption.

(II) EXTERNAL RECONSTRUCTION

Q. 8 . Reckless Ltd. is reconstructed into Careful Ltd. which takes over all assets and liabilities of Reckless Ltd. The Balance Sheet of the company is as under on 31st March 2017 :

Liabilities	₹	Assets	₹
Share Capital (fully paid Shares of ₹ 100 each)	10,00,000	Patent Rights	1,20,000
		Plant & Machinery	5,00,000
5% Debentures	2,00,000	Stock	1,20,000
Creditors	3,00,000	Debtors	60,000
		Cash at Bank	5,000
		Profit & Loss A/c	6,85,000
		Discount on Issue of Debentures	10,000
	15,00,000		**15,00,000**

Careful Ltd. is to issue one share of ₹ 20 each as fully paid for each share held in Reckless Ltd. Debentureholders in Reckless Ltd. are to receive 6% Debentures of face value of ₹ 1,15,000. Careful Ltd. will issue to the shareholders additional 20,000 shares of ₹ 20 each. These Shares are fully subscribed and out of the sum received ₹ 1,00,000 is paid to the creditors. Patent Rights are valueless. Careful Ltd. is to adjust the value of Plant and Machinery as required.

Give the Balance Sheet Careful Ltd. after all the above arrangement have been put through.

Q. 9. Following is the Balance Sheet of Backward Ltd. as on 31st March, 2017 :

Liabilities	₹	Assets		₹
40,000 7% preference shares		Land and Buildings		3,18,000
of ₹ 10 each fully paid	4,00,000	Plant & Machinery		1,65,000
60,000 Equity shares of ₹ 10 each	6,00,000	Motor Lorries		6,200
Profit prior to incorporation	12,100	Trade Debtors	1,34,000	
Loans	5,000	Less : Provision	3,000	1,31,000
Trade Creditors	86,100	Stock in trade		83,500
Bills payable	4,200	Cash in hand and at bank		13,100
Bank overdraft	9,400	Profit & Loss A/c.		4,00,000
	11,16,800			**11,16,800**

Note : There is a contingent liability in respect of a claim for royalties amounting to 15,000. It was arranged that a new company. Progressive Ltd. should be formed to acquire the undermentioned assets at the values stated :

Land & Building	₹ 2,00,000
Plant & Machinery	₹ 1,20,000
Motor Lorries	₹10,000
Stock	₹ 70,000

The total of ₹ 4,00,000 payable was satisfied by the allotment of 20,000 6% preference shares of ₹ 10 each, fully paid and 20,000 equity shares of ₹10 each, fully paid. The new company also satisfied the contingent liability in respect of the claim for royalties by allotting to the claimant 400 Equity shares fully paid.

The book debts realised ₹ 1,30,000 and the amount of trade creditors proved to be ₹ 81,000. Loans and other liabilities were discharged and the costs of winding up amounted to ₹ 1,400.

The preference shareholders in the old company accepted the preference shares in the new company in full satisfaction whereas the equity shareholders took the equity shares in the new company and the balance in cash as final settlement.

Show the journal entries in the books of both the companies.

(III) AMALGAMATION

Q. 10. K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under :

Liabilities	K Ltd.	L. Ltd.	Assets	K Ltd.	L. Ltd.
Share Capital			Goodwill	80,000	
Equity shares of			Land & Building	4,50,000	3,00,000
₹ 100 each:	8,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
7% Preference shares			Furniture & Fittings	60,000	20,000
of ₹ 100 each	4,00,000	3,00,000	Sundry Debtors	2,75,000	1,75,000
5% Debentures	2,00,000		Stores & Stock	2,25,000	1,40,000
General Reserve	—	1,00,000	Cash at Bank	1,20,000	55,000
Profit & Loss A/c	4,31,375	97,175	Cash in hand	41,375	17,175
Sundry Creditors	1,00,000	2,10,000	Preliminary Expenses	60,000	
Secured Loan		2,00,000			
	19,31,375	**12,07,175**		**19,31,375**	**12,07,175**

(A) The terms of amalgamation were as under :

1. The assumption of liabilities of both the Companies.
2. Issue of 5 equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the Companies.
3. (a) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies.

   (b) In addition, necessary cash should be paid to the Equity shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
4. Issue of such an amount of fully paid 6% debenture in LK Ltd. as is sufficient to discharge the 5% debentures in K. Ltd.

(B) You are further informed that :

1. The assets and liabilities are to be taken at Book values except stock and debtors for which a provision at 2% and $2^1/_2$% respectively to be raised.
2. The sundry debtors of K Ltd. include ₹ 20,000 due from 'L' Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each. ₹ 18 paid at premium of ₹ 4 per share so as to have sufficient working capital.

You are required to :

(1) Calculate Intrinsic value of both the companies shares.

(2) Calculate purchase consideration.

(3) Give opening entries in the Books of New Company.

Q. 11. Given below are the summarised balance sheets of the two companies as on 31st March, 2017.

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Equity shares of ₹ 100 each	6,00,000	2,00,000	Goodwill	1,50,000	80,000
10% Preference shares of ₹ 100 each	2,00,000	—	Plant & Machinery	10,87,000	2,50,000
General reserve	75,000	—	Stocks	3,20,000	95,000
Profit & Loss a/c	22,500	6,800	Sundry Debtors	1,90,000	47,000
6% Mortgage Debentures	4,00,000	—	Cash & Bank Balances	70,800	6,400
Sundry creditors	5,38,300	2,71,600	Discount on debentures	18,000	—
	18,35,800	4,78,400		18,35,800	4,78,400

Due to unfavourable financial position, both the companies decided to amalgamate and form a new company. In substance the provision of the scheme were as under :

(a) A new company C Ltd. was to be formed to take over the net assets of A Ltd. and B Ltd. The new company was to have an authorised capital of ₹ 25,00,000 divided into 20,000 equity shares of ₹ 100 each and 5,000 10% cumulative preference shares of ₹ 100 each. The preference shares were convertible into equity shares at the expiration of five years from the date of their issue.

(b) The preference shares of A Ltd. were to be exchanged for preference shares in the new company on equal basis. Every two equity shares of A Ltd. were to be exchanged for three equity shares in the new company.

(c) The remaining preference shares of the new company were to be issued for cash. All the available equity shares of the new company after withholding a sufficient number to meet the conversion privilege of the shareholders were to be offered for cash subscription at par.

(d) The sundry debtors of A Ltd. includes a sum of ₹ 24,000 due from B Ltd. for sale of goods, whose cost to A Ltd. was ₹ 18,000. These goods remaining on hand with B Ltd. are included in the company's stock inventory.

(e) The cash proceeds realised from the sale of the shares were to be applied as follows :

(i) The debentures were to be paid of in full.

(ii) The creditors were to be paid 30 percent of amount due to them.

You are required to pass journal entries in the books of C Ltd.

Q. 12. A and B Ltd. agreed to amalgamate their business. The scheme envisaged the formation of C Ltd.. with a share capital equal to the combined capitals of A Ltd. and B Ltd. for the purpose of acquiring the assets, liabilities and undertakings and the two companies in exchange for shares in C Ltd. The Balance sheets of A Ltd. and B Ltd. as on 31-3-2011 (the date of amalgamation) are summarised below :

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
	₹	₹		₹	₹
Authorised & Issued			Fixed Assets	1,20,000	1,80,000
Capitals	1,00,000	1,40,000	Stock	60,000	1,10,000
Reserves	1,70,000	1,00,000	Debtors	80,000	1,30,000
Creditors	40,000	90,000	Balance with		
Bank Overdraft	----	90,000	Bank	50,000	----
	3,10,000	**4,20,000**		**3,10,000**	**4,20,000**

The consideration was to be based on the net assets of companies as shown in their books on March 31, 2011 but subject to an addition to compensate A Ltd. for its super profits records. This addition was to be the weighted average of the net profits of A Ltd. for three years ended March 31, 2011. The weights for this purpose for the year 2008-09, 2009-10 and 2010-11 were agreed as 1, 2 and 3 respectively.

The profits had been :

Year ended 31st March, 2009	20,000
Year ended 31st March, 2010	80,000
Year ended 31st March, 2011	1,20,000

The shares in C Ltd. were to be issued to A Ltd. and B Ltd. at the premium and in proportion of the agreed net assets value of those companies.

In order to raise working capital, C Ltd. increased its authorised share capital by ₹ 2,00,000 and proceeds to issue 12,000 shares of ₹ 10 each at a price of ₹ 15 per share.

(a) You are required to calculate the number of shares issued to A Ltd. and B Ltd.

(b) To show Journal entries in the books of A Ltd.

(c) To prepare the summarised balance sheet of C Ltd. after the issue of shares.

Q. 13. White Ltd. and Blue Ltd. propose to sell their business to a new company being formed for that purpose.

The summarised balance sheet as on 31st March, 2017 and profits of the companies for the past three years are as follows :

Liabilities	White Ltd. ₹	Blue Ltd. ₹	Assets	White Ltd. ₹	Blue Ltd. ₹
Equity shares of			Freehold properly		
₹ 10 each	6,00,000	2,50,000	(at cost)	3,60,000	1,20,000
Capital reserve	—	1,50,000	Plant & machinery		
General reserve	3,90,000	1,20,000	(at cost)	3,20,000	1,80,000
Profit and loss a/c	1,10,000	1,60,000	Investment (at cost)	—	1,00,000
Creditors	2,15,800	1,26,800	Stock - in - trade	1,10,000	89,500
			Debtors	89,000	64,000
			Balance at bank	4,36,800	2,53,300
	13,15,800	**8,06,800**		**13,15,800**	**8,06,800**

	White Ltd.	Blue Ltd.
	₹	₹
Net profits for the year ended :		
31st March, 2015	1,74,500	1,07,600
31st March, 2016	1,93,400	1,22,900
31st March, 2017	2,14,700	1,44,500

You are given the following relevant information.

It is agreed :

(1) that the properties and plant and machinery be re-valued as follows :

	White Ltd.	Blue Ltd.
	₹	₹
Freehold property	4,48,000	1,44,000
Plant and machinery	3,05,700	1,72,950

(2) that the value of stocks be reduced by 10% and a provision of $12^1/_2$% be made on debtors for bad and doubtful debts.

(3) that goodwill be valued at two years purchase of the average annual trading profits of the past three years after deducting a standard profit of 10% on the net trading assets before revaluation or adjustment on 31st March, 2017. Blue Ltd. had earned ₹ 17,000 on an average on its investments.

You are required to prepare the opening balance sheet of the new company.

Q. 14. Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of ₹ 2,00,000 divided into 40,000 equity shares of ₹ 5 each.

On 31st March, 2008 the respective Balance Sheet of Star and Moon were as follows:

	Star	Moon
	₹	₹
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less : Current Liabilities	2,98,500	90,125
Representing Capital	1,82,500	1,76,250

Additional Information :

(a) Revalued figures of Fixed and Current Assets were As follows :

	₹	₹
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

(b) The debtors and creditors include ₹ 21,675 owed by Star to Moon. The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 30,000 equity shares of Neptune Ltd. to Star & Moon in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	₹	₹
2006 profit	2,24,788	1,36,950
2007 (Loss) / Profit	(1,250)	1,71,050
2008 Profit	1,88,962	1,79,500

(ii) 15% debentures in Neptune Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2008 after revaluation of assets.

Compute the amount of debentures and shares to be issued to Star & Moon.

(IV) MERGER

Q. 15. The following were the Balance Sheets of P Ltd and V Ltd as at 31st March, 2017 :

(₹ in lakhs)

Liabilities	P Ltd.	V Ltd.	Assets	P Ltd.	V Ltd.
Equity Share Capital	15,000	6,000	Land & Building	6,000	----
(fully paid shares of			Plant & Machinery	14,000	5,000
₹ 10 each)			Furniture & Fixtures		
Securities Premium	3,000	----	and Fittings	2,304	1,700
Foreign Projects			Stock	7,862	4,041
Reserve (Statutory)	----	310	Debtors	2,120	1,020
General Reserve	9,500	3,200	Cash at Bank	1,114	609
Profit & Loss A/c	2,870	825	Bills Receivable	----	80
12% Debentures	----	1,000	Cost of Issue of		
Bills Payable	120	----	Debentures	----	50
Sundry Creditors	1,080	463			
Sundry Provisions	1,830	702			
	33,400	**12,500**		**33,400**	**12,500**

All the Bills Receivable held by V Ltd were P Ltd's acceptances. On 1st April, 2007, P Ltd took over V Ltd in an amalgmation in the nature of merger. It was agreed that in discharge of consideration for the business, P Ltd would allot three fully paid ordinary shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% Debentures in V Ltd would be converted into 13% Debentures in P Ltd of the same amount and denomination. Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd and profit in internal stock is ₹ 2 lakhs.

You are required to pass journal entries in the books of P Ltd

Q. 16. The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2017 :

(₹ in lakhs)

Liabilities	**M Ltd.**	**N Ltd.**
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference Shares of ₹ 10 each fully paid up	1,200	----
Capital Reserve	600	----
General Reserve	2,100	----
Profit and Loss Account	780	----
8% Redeemable debentures of ₹ 1,000 each	----	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	**1,662**
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	----	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	----	33
Discount on Issue of Debentures	----	6
	11,571	**1,662**

A new Company MN Ltd was got incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each for the purpose of amalgamation in the nature of merger. M Ltd and N Ltd were merged into MN Ltd on the following terms :

(i) Purchase consideration for M Ltd's business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd to the preference and equity shareholders of M Ltd in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd's business, MN Ltd to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd and N Ltd amounting to ₹ 6 lakhs are to be borne by MN Ltd

(iv) 8% redeemable debentures of N Ltd to be converted into 8.5% redeemable debentures of MN Ltd

(v) Expenses on incorporation of MN Ltd were ₹ 15 lakhs.

You are requested to :

(a) Pass necessary Journal entries in the books of MN Ltd to record above transactions, and

(b) Prepare Balance Sheet of MN Ltd after merger.

CHAPTER - 6 LIQUIDATION OF COMPANIES

PART A : THEORY SECTION

Types of liquidation :

1. **Compulsory liquidation** (By the order of the court) : In this case the liquidator would be appointed by the court and would be called as an official liquidator.
2. **Voluntary liquidation** (By Shareholders): In this case the shareholders would decide at their meeting (extraordinary) that the company has to be wound up by passing a special resolution. The shareholders would appoint the liquidator who would prepare a statement which would consist of the estimated realisable value of assets and estimated payments towards liabilities. This statement is termed as 'Liquidators statement of Affairs'. On the basis of this statement the directors of the company would make a declaration of solvency. A copy of this statement has to be submitted to the court for obtaining its permission. Once the permission is granted the liquidation would commence.

   On the completion of the liquidation proceedings, the liquidator would call a final meeting of the shareholders. At this meeting a statement of accounts would be submitted to the shareholders. This statement would summarize the actual amounts realised from the sale of the assets and the amounts paid towards expenses & liabilities. This statement is called as "Liquidators Final Statement of Account." A copy of this statement has to be submitted to the ROC. On this submission, the company's name would be deleted and the company is said to be liquidated.

Conclusion

(1) <u>Liquidators Statement of affairs</u>
  (a) Prepared before the commencement of liquidation.
  (b) On an Estimated Basis.

(2) <u>Liquidators Final Statement of Account</u>
  (a) Prepared after the completion of the liquidation
  (b) On an Actual Basis.

NOTES :

(1) **Legal order of payments :** When the amounts are realised from the disposal of assets it should be applied towards the payment of expenses & liabilities in a specified order which is as follows :

Step 1 Legal Expenses
Step 2 Liquidator's Remuneration
Step 3 Liquidation Expenses
Step 4 **Secured Creditors :** It would only include liabilities which are secured by a specific charge, hypothecation or mortgage. The specific asset should be given as a security against the liability. For the purpose of liquidation secured loans would not include the liabilities which are secured by a floating charge.

Note : If the amount realised from the sale of the asset exceeds the secured liability than the surplus can be utilised towards the payment of other liabilities. Alternatively if there is a deficiency then the balance would be treated as unsecured and it would be paid alongwith all other unsecured liabilities in step 7.

Step 5 **Preferential Creditors : (Unsecured Creditors)**

(i) The payment of Government dues for taxes provided they have arisen within the period of 12 months before the date of liquidation.

(ii) The payment of wages & salaries to employees and workers (not directors) for a maximum period of 4 months. The salaries and wages should have arisen within a period of 12 months before the date of liquidation. How ever the amount payable to an individual should not exceed ₹ 20,000/-.

(iii) The payment of provident fund, gratuity, pension as per the provision of the relevant acts.

(iv) Any leave salary which is payable to the employees and workers.

(v) Compensation paid as per the provisions of the workmen compensation Act and Industrial Disputes Act.

(vi) Cost of investigation as per the provisions of Sec. 235 or 237 of the Co's Act. 1956.

NOTE : All preferential creditors rank equal.

Step 6 The amount of those liabilities which are secured by a floating charge, for e.g.. Debentures and Interest accrued upto the date of liquidation.

Step 7 The payment of unsecured creditors together with the deficiency of secured creditors which arose in step 4.

Step 8 Interest an liabilities with floating charge from the date of liquidation to the date of repayment.

Step 9 Preference share holders. (Preference share capital + Arrears of dividend upto the date of liquidation).

Step 10 Equity share holders.

(2) **Cash deficit :** If there is a cash deficit and the shares are partly paid than the liquidator can make a call on such shares and utilise the amount received towards the payment of the liabilities. If there are partly paid equity shares and partly paid preference shares then firstly the liquidator would make a call on the partly paid equity shares.

Liquidators statement of Account

Receipts	Estimated Realisable Value	Realised Value	Payments		Amt.
Cash / Bank Balance		xx	Legal Expenses		xx
			Liquidators Remuneration		xx
Assets Realised		xx	Liquidation Expenses		xx
(It would incl. only those			Liabilities secured		
assets which have not been			by floating charge		
given as a specific security).			Principal	x	
Surplus from securities		xx	Interest	x	xx
On _____ shares @ ₹ __			Unsecured Creditors		
On _____ shares @ ₹ __			Preferential	x	
		xx	Others	x	xx
		xx	Preference share holders		
			On _____ share @ ₹ ___		xx
			Equity share holders		
			On _____ share @ ₹ ___		xx
			On _____ share @ ₹ ___		xx
		xx			**xx**

FORMAT OF LIQUIDATOR'S STATEMENT OF AFFAIRS

__________ Ltd. (In liquidation)

Liquidators statement of affairs as on______

	Estimated Realisable Values
List - A Assets not specifically pledged.	xx
-----	xx
-----	xx
-----	**xx**
List B Assets specifically Pledged.	

Assets	Estimated Realisable value. (a)	Due to Secured Creditors (b)	Deficiency ranking as unsecured (c)	Surplus trfd. to the last column. (d)
-----	xx	xx	-----	xx
-----	xx	xx	xx	-----
	xx	**xx**	**xx**	**xx**

	Estimated Realisable Values
(Surplus from List B)	**xx**
Estimated amount available for meeting liabilities.	**xx**

Summary of Gross Assets.

(a)	Estimated Realisable value of assets specifically pledged	xx
(b)	Other Assets	xx
	Gross Assets	**xx**

Gross Liabilities			Estimated Realisable Values
xx	Secured Creditors (As per list B)		----
	Estimated total amount available for preferential creditors, Liabilities with floating charge and other unsecured creditors.		xx
xx	**List 'C' Preferential Creditors**	**xx**	
	-----	xx	(x)

	Estimated total amount available for liability with floating charge & other unsecured Creditors.		x
xx	**List 'D' Liabilities with floating charge**	xx	
	-----	xx	(x)

	Estimated total amount available for other unsecured creditors.		x
xx	**List 'E' Other unsecured creditors + Deficiency as per 'List B'**		(x)
	Estimated Total Amount available for shareholders.		x
xx	**List 'F' Preference share holders**		(x)
	Estimated Total Amount available for Equity Share holders.		x
xx	**List 'G' Equity share holders**		(x)
	Estimated Surplus / Deficiency as regards contributories/members. (List H)		x

List - H - Deficiency Statement

In event of liquidation, if the liquidator's statement of affairs is showing any deficiency, the liquidator is required to explain this deficiency by preparing an explanatory statement called "List H - deficiency statement". In this statement he is required to cover all major financial factors contributing to / reducing the deficiency in last minimum 3 years. (If the company is getting liquidated within 3 years of incorporation then all the factors from the date of incorporation till date). This statement is prepared in following format.

Items contributing to deficiency or reducing the surplus :

(1)	Excess of Capital & Liabilities over Assets.....Years ago as shown by Balance sheet		x
(2)	Dividends / Bonuses declared during the period.		x
(3)	Net Trading losses during the period.		x
(4)	Losses other than trading losses which have been written off during the period.		x
(5)	Estimated losses now w/off for which provision has been made while preparing the statement of affairs.		x
(6)	Other items contributing to deficiency or reducing surplus.		x
		(A)	x

Items increasing surplus or reducing deficiency.

(7)	Excess of Assets over Capital & Liabilities.... years ago as shown by the Balance sheet.		x
(8)	Net trading profit during the period.		x
(9)	Profits and incomes other than trading profits during the period.		x
(10)	Other items reducing the deficiency or contributing to surplus.		x
		(B)	x
	Estimated deficiency as per the statement of affairs.	(A - B)	xx

Contributory & past Contributory

A contributory is a share holder of the company which is in liquidation. The shareholders is termed as a contributory since a contribution may have to be made by the shareholder in order to enable the liquidator to pay off the liabilities. The liability of the contributory would be limited to the extent of the uncalled amount on the shares.

In the case of a company which is not in liquidation the share holders liability to pay the amounts in respect of the call is contractual in nature. In the event of the share holder making a default in respect of the call than the company can forfeit the shares and subsequently it can be reissued.

In the case of a company which is in liquidation the liquidator has a legal right against the contributories to recover the amount uncalled in respect of the shares. However if the present contributory is insolvent then amount would be Recovered from the past contributory of shares. All the present contributories would be included in List A and all the past contributories would be included in List - B.

Rules and Regulations for ascertaining the liability of the transferor of shares.

(1) The transferor of shares would be liable if the transfer has taken place within a period of 12 months before the date of liquidation.

(2) The transfer should not have taken place on the death of the transferor (Transmission).

(3) The past contributory (i.e. Transferor) would be liable to contribute the minimum of the following :

  (a) Outstanding Liability as on the date of transfer of shares or

  (b) Amount unpaid on the shares.

  The past contributory cannot be made liable for any liabilities that arises after the date of transfer of shares.

(4) If there are more than one transferor of shares then the liability will have to be allocated on the basis of the ratio of the No. of shares transferred. The allocation of the liability should be compared with maximum liability and the amount that would be contributed would be the least.

PART B : CLASSWORK SECTION

Q. 1. Few Assets Ltd. went into voluntary liquidation on March 31st 2017. At that date the Balance Sheet read as follows :

		₹
Plant		2,00,000
Stock		1,00,000
Debtors		1,50,000
Cash at Bank		3,000
		4,53,000
Less : 5% Debentures	60,000	
Creditors	1,03,000	1,63,000
		2,90,000
Represented by:		
12,000 10% Preference shares of ₹ 10 each		1,20,000
20,000 ordinary shares of ₹ 10 each		2,00,000
		3,20,000
Less : Deficiency on Profit & Loss Account		30,000
		2,90,000

The dividends on the Preference shares had been paid upto 31st, March 2016. The liquidator sold the plant and stock for ₹ 2,75,000 and realised all the debts except one of ₹ 25,000 which proved to be irrecoverable. He admitted the claim of all creditors ₹ 5,000 of which were preferential.

Expenses of liquidation amounted to ₹1,600 and the Debentures were repaid on 30th, September 2011. The liquidator's remuneration was at the rate of 2% on the amounts realised (except cash) and 2% on the amount distributed to the ordinary shareholders.

Prepare the Liquidators Final account ignoring income tax.

Q. 2. The following is the Balance Sheet of M/s. Unfortunate Limited as on 31st March, 2017.

Liabilities		₹	Assets	₹
Share Capital			Land and Building	2,00,000
Authorised & Subscribed :			Plant & Machinery	5,00,000
4,000 6% pref. shares of ₹ 100 each	4,00,000		Patents	80,000
2,000 Equity shares ₹ 100 each,			Stock at cost	1,10,000
₹ 75 per share paid up	1,50,000		Sundry Debtors	2,20,000
6,000 Equity shares of ₹ 100			Cash at Bank	60,000
each,₹ 60 per share paid up	3,60,000	9,10,000	Profit and Loss Account	2,40,000
5% Debentures (have floating charges on all assets)		2,00,000		
Interest outstanding on Debentures also secured as above		10,000		
Creditors		2,90,000		
		14,10,000		**14,10,000**

On that date, the Company went into liquidation. The dividends on preference shares were in arrears for two years. The arrears are payable on liquidation as per the Articles of the Company. Creditors include a loan of₹ 1,00,000 on Mortgage of Land and Buildings. The assets realised are as under :

	₹
Land and Buildings	2,40,000
Plant & Machinery	4,00,000
Patents	60,000
Stock	1,20,000
Sundry Debtors	1,60,000

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to commission of 3% on all assets realised and a commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount of ₹ 30,000. All payments were made on 30th September, 2017.

Prepare the Liquidator's statement of Account.

Q. 3. Break Limited went into voluntary liquidation on 31.3.2017. The balances in its books on that date were :

Liabilities	₹	**Assets**	₹
Share Capital :		Land	50,000
Authorised and Subscribed:		Building	2,00,000
5,000 6% Preference shares of		Plant & Machinery	6,25,000
₹100 each fully paid	5,00,000	Stock	1,37,500
2,500 equity shares of		Sundry Debtors	2,75,000
₹100 each ₹75 paid up	1,87,500	Cash at Bank	75,000
7,500 Equity shares of		Profit and Loss A/c	4,10,000
₹100 each ₹ 60 paid up	4,50,000		
5% Debentures (secured			
by a floating charges on all assets)	2,50,000		
Interest due on Debentures	12,500		
Bank Overdraft	1,00,000		
Unsecured creditors	2,00,000		
Taxes due to Government			
within 12 months	12,500		
Salaries and wages due for			
4 months for workers	60,000		
	17,72,500		**17,72,500**

The liquidator is entitled to a remuneration of 5% on all assets realised except cash and 1% on the amount distributed to Unsecured Creditors other than Preferential Creditors.

Bank Overdraft is secured by deposit of title deed of land and building which realised ₹ 3,00,000. Other assets realised the following sums :

	₹
Plant & Machinery	5,00,000
Stock	1,50,000
Sundry Debtors	2,00,000

Expenses of liquidation amounted to ₹ 27,250.

Prepare liquidator's final statement of account. Liquidator realised all assets on 1.7.2017 and discharged his obligation on the same date. Dividend on preference shares were in arrears for two years.

Q. 4. Given below is the position as on April 1, 2017 of Ganges Silk Mills Ltd., on which date it goes into liquidation :

		₹	₹
1. Share Capital :			
a. 10,000 Preference Shares of ₹ 10 each fully paid		1,00,000	
b. 5,000 Equity shares of ₹ 10 each fully called	50,000		
Less : Calls-in-arrears on 1,000 shares @ Re.1/- per share	1,000	49,000	
c. 10,000 Equity shares of ₹ 10 each ₹ 5 per share paid		50,000	
d. 20,000 Equity Shares of ₹ 10 each ₹ 3 per share paid		60,000	2,59,000
2. Secured loan from bank :			
Against pledge of stock of raw material			38,000
3. Unsecured dues :			
Preferential		1,200	
Others		1,01,800	1,03,000
			4,00,000
4. Cash and Bank			5,000
5. Stock of raw materials			50,000
6. Other stocks			1,50,000
7. Others assets			1,45,000
8. Profit and Loss Account (Debit Balance)			50,000
			4,00,000

Realisations were :

a. Stock of raw materials - ₹ 30,000;

b. Other stocks - 80,000;

c. Remaining Assets - ₹ 20,000

The liquidator is entitled to a fixed remuneration of ₹1,000 plus 3% of the gross amounts realised by him. Other costs and charges amounted to ₹11,000. Equity shares carry the same rights, regardless of the amount paid, as far as capital repayment is concerned.

Show the Liquidator's final statement of Account.

Q. 5. The summarized Balance Sheet of Vasant Ltd. as on 31st March, 2017, being the date of voluntary winding up is as under:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	1,30,000
Issued: 10% Pref. Shares of ₹ 10 each	1,50,000	Sundry Current Assets	4,36,000
10,000 Equity Shares of ₹ 10 each, fully		Profit and Loss Account	35,000
paid up	1,00,000	Debenture issue expenses	
5,000 Equity Shares of ₹ 10 each,		not written off	2,000
₹ 8 per share paid up	40,000		
13% Debentures	1,50,000		
Mortgage Loan	70,000		
Bank overdraft	30,000		
Trade Creditors	38,000		
Income Tax Arrears (assessment			
concluded in February, 2013)	25,000		
	6,03,000		**6,03,000**

Mortgage loan was secured against Land & Building. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the debentureholders appointed a Receiver for the debentureholders. He brought the Land & Buildings to auction and realized ₹ 1,60,000. He also took charge of Sundry Assets of value of ₹ 2,36,000 and realized ₹ 2,00,000. The Bank overdraft was secured by personal guarantee of the directors of the company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 1,950 and by the Liquidator ₹ 3,000. The receiver was not entitled to any remuneration but the Liquidator was to receive 2% fee on the value of assets realized by him. Preference Shareholders have not been paid dividend for period after 31st March, 2015 and interest for the last half year was due to the Debentureholders. Rest of the assets were realized at ₹ 1,50,000.

Prepare the accounts to be submitted by the receiver and Liquidator.

Q. 6. M Co. Ltd. went into voluntary liquidation on 31st March, 2017. The following balances are extracted from its books on that date :

	₹			₹
Capital : 40,000 equity		Buildings		1,50,000
shares of ₹10 each	4,00,000	Plant & Machinery		2,10,000
Debentures (secured by a		Stock in Trade		95,000
floating charge)	1,00,000	Book debts	75,000	
Creditors	40,000	Less : Provision	(10,000)	65,000
Bank Loan	2,00,000	Calls in arrears		1,00,000
Bank overdraft	30,000	Cash on hand		10,000
Outstanding Salary	5,000	Profit and Loss Account		1,40,000
Bills Payable	10,000			
Outstanding Tax	15,000			
	8,00,000			**8,00,000**

Plant & Machinery and Buildings are valued at ₹1,50,000 and ₹1,20,000 respectively. On realisation, losses of ₹15,000 are expected on Stock. Book Debts will realise ₹ 70,000. Calls in arrears are expected to realise 90%. Bank overdraft is secured against Buildings and Bank loan is against Plant and Machinery.

Prepare a Statement of Affairs to be submitted to the meeting of creditors.

Q. 7. The following information was extracted from the books of a limited company on 31st March, 2017 on which date a winding up order was made :

	₹
Equity share capital - 2,000 shares of ₹ 100 each	2,00,000
6% Preference share capital - 3000 shares of ₹ 100 each	3,00,000
Calls in arrear on equity shares (estimated to realised to ₹2,000)	4,000
5% First Mortgage Debentures secured by a floating charge on the whole of the asset of the company (interest paid to date)	2,00,000
Creditors having a first mortgage on the Freehold Land & Building	85,000
Creditors having a second charge on Freehold Land & Buildings	90,000
Trade Creditors	2,70,000
Bill discounted (of these bills for ₹15,000 are expected to be dishonoured)	40,000
Unclaimed Dividends	6,000
Bills payable	10,000
Income tax due	25,000
Outstanding Salaries and Wages (for five months)	40,000
Bank overdraft secured by second charge on the whole of the assets of the company	20,000
Cash in hand	1,200
Debtors (of these ₹60,000 are good : ₹15,000 are doubtful estimated to realise ₹ 5,000 and the rest bad)	90,000
Bills of Exchange (considered good)	35,000
Freehold Land and Buildings (estimated to realise ₹ 1,65,000)	1,50,000
Plant and Machinery (estimated to produce ₹ 90,000)	1,20,000
Fixtures and Fittings (estimated to produce ₹ 8,000)	12,000
Stock in trade (estimated to produce 25% less)	80,000
Patents (estimated to produce ₹ 45,000)	70,000

On 31st March, 2012 the company's share capital stood at the same figure as on 31st March, 2017 but, in addition, there was a General Reserve of ₹ 65,000. In 2013-2014 the company earned a profit ₹ 85,000 but thereafter it suffered trading losses totalling in all ₹ 4,67,000. In 2014-2015 a speculation loss of ₹ 91,000 was incurred. Preference dividend was paid for 2013-2014 and 2014-2015 and on equity shares a dividend of 10% was paid in 2013-2014 only.

Excise authorities imposed a penalty of ₹ 60,000 in 2008 for evasion of excise and income-tax authorities imposed a penalty of ₹ 1,60,200 for evasion of tax.

Prepare the Statement of Affairs and the Deficiency Statement.

Q. 8. Bad Luck Limited went into voluntary liquidation and the proceedings commenced on 2nd July, 2016. Certain creditors could not receive payment out of the realisation of assets and out of the contributions from the contributories of the A list. The following details of share transfers are made available to you.

Name of the transferror	No of Shares transferred	Date of transferror ceasing to be member	Creditors remaining unpaid and outstanding at the time of the transferror ceasing to be a member (₹)
A	1,000	1st May, 2004	6,000
B	1,250	15th Aug., 2015	8,000
C	500	1st Oct., 2015	10,750
D	2,000	1st Dec., 2015	13,000
E	250	1st April, 2016	15,000

All the shares were of ₹10 each, on which ₹ 5 per share had been paid up. Ignoring other details like liquidator's expenses etc., you are required to work out the liability of the individual contributories listed above.

Q. 9. The position of Valueless Ltd. on its liquidation is as under:

Issued and paid up Capital:

3,000 11 % preference shares of ₹100 each fully paid.

3,000 Equity shares of' 100 each fully paid.

1,000 Equity shares of ₹ 50 each ₹ 30 per share paid.

Calls in Arrears are ₹ 10,000 and Calls received in Advance ₹ 5,000. Preference Dividends are in arrears for one year. Amount left with the liquidator after discharging all liabilities is ₹ 4,13,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital. You are required to prepare the Liquidators final statement of account.

Q. 10. From the following details calculate amount of preferential creditor for the company which went into liquadation on 1-4-2017.

(i) Government taxes payable for the 2015-2016 ₹ 22,000 & for the year 2016 - 17 ₹ 21,000.

(ii) Electricity & water charges payable to govt. on 31st March 2016 20,000.

(iii) Wages of staff Mr. A for 5 months @ ₹ 4,000 per month.

(iv) Wages of staff Mr. B for 4 months @ ₹ 6,000 per month.

(v) Accrued holiday remunaration of staff Mr. C ₹ 21,000.

(vi) Compensation payable of ₹ 25,000 to staff Mr. D under employers compensation Act.

(vii) Providend fund & gratuity payable to staff Mr. E ₹ 30,000.

Q. 11. In a winding up of a company, certain creditors remained unpaid. The following persons had transferred their holding sometime before winding up :

Name	Date of Transfer transferred 2016	No. of Shares	Amount due to creditors on the date of transfer ₹
P	January 1	1,000	7,500
Q	February 15	400	12,500
S	March 15	700	18,000
T	March 31	900	21,000
U	April 5	1,000	30,000

The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.

A member, R, who held 200 shares died on 28th February, 2016 when the amount due to creditors was ₹ 15,000. His shares were transmitted to his son X.

Z was the transferee of shares held by T. Z paid ₹ 20 per share as calls in advance immediately on becoming a member.

The liquidation of the company commenced on 1st February, 2017 when the liquidator made a call on the present and the past contributories to pay the amount.

You are asked to quantify the maximum liability of the transferors of shares mentioned in the above table, when the transferees:

(i) pay the amount due as "present" member contributories;

(ii) do not pay the amount due as "present" member contributories.

Also quantity the liability of X to whom shares were transmitted on the demise of his father R.

CHAPTER - 7 FINANCIAL STATEMENTS OF INSURANCE COMPANIES

PART A : THEORY SECTION

Insurance companies require a separate format for presenting final accounts because of its distinct nature of business. This is a business where the insurance companies (insurer) indemnifies the policy holder (insured) against the risk. The insured pays premium for this service and if any loss arises he receives claims, which means that the main item of income for insurance companies is "premium" & main item of expenditure is "claims" & "commission". Since there is no trading activity, the trading a/c is replaced by Revenue A/c. Hence the final accounts of insurance companies contains following three statements-

(1) Revenue a/c

(2) Profit & loss a/c

(3) Balance sheet.

Important concepts –

(1) Main Incomes & Expenses

Insurance Business

Direct Business

Premium – Income
Claims – Expense
Commission – Expense

Re – Insurance Business

Re- Insurance accepted

Premium - Income
Claims - Expense
Commission - Expense

Re- Insurance ceded

Premium - Expense
Claims - Income
Commission- Income

(2) Reserve for Unexpired Risk

Normally insurance policy is for one year. So premium received by insurance companies is for one year. So it happens that for policies which are taken in current year claims may materialize in next financial year for which a provision should be made in current financial year which is known as Reserve for **Unexpired risk.** As per IRDA guidelines the reserve for unexpired risk is to be provided at –

50% of net premium for fire & Miscellaneous business & 100% of net premium for marine insurance business.

(3) Additional Reserve for unexperienced Risk :

No Rule (continue as last year if nothing is specified in the question).

Format of Final Accounts of General Insurance Co.

.... Insurance Co.

Revenue Account For The Year Ended.................

In Respect of .... Insurance Business

	Sch.	Current Year	Previous Year
1. Premium Earned (Net)	1		
2. Profit / Loss on Sale / Redemption of Investments			
3. Other Incomes			
4. Interest, Dividend, Rent etc. (Gross)			
Total (A)			
1. Claim Incurred (Net)	2		
2. Commission	3		
3. Operating Expenses related to insurance business	4		
Total (B)			
Operating profit transferred to Profit & Loss Account (A-B)			

Profit and Loss Account For The Year Ended ....

		Current Year	Previous Year
1. Profit / Loss from Revenue Account			
2. Income from Investments			
a. Interest, Dividend, Rent etc. (Gross)			
b. Profit on Sale of Interests			
Less: Loss on Sale of Investments			
3. Other Incomes			
	Total (A)		
4. Provisions (Other than taxation)			
5. Other Expenses			
	Total (B)		
Profit before taxation	**(A - B)**		
Less : Provision for taxation			
Profit after taxation			
Less: Appropriations			
Profit after appropriations			
Add: Balance from Last Year			
Balance carried to Balance Sheet			

.... Insurance Co.

Balance Sheet As On.....................

	Sch.	Current Year	Previous Year
SOURCES OF FUNDS			
Share Capital	5		
Reserve and Surplus	6		
Borrowings	7		
Total			
APPLICATIONS OF FUNDS			
Investments	8		
Loans	9		
Fixed Assets	10		
Current Assets			
Cash and Bank Balance	11		
Advance and Other Assets	12		
Sub-total (A)			
Current Liabilities	13		
Provisions	14		
Sub-total (B)			
Net Current Assets **Sub-total (A - B)**			
Miscellaneous Expenditure	15		
Debit Balance in P & L Account			
Total			
Contingent Liabilities			

SCHEDULES FORMING PART OF REVENUE ACCOUNT

Schedule 1 Premium Earned

Premium on Direct Business		
<u>Add :</u> Premium on RI Accepted		
Less: Premium on RI ceded		
Net Premium		
Adjustment for change in Reserve for Unexpired Risk		
Total		

Schedule 2 Claims incurred (Net)

Claims on Direct Business		
Add : Claims on RI Accepted		
Less : Claims on RI ceded		
Net Claims Incurred		
Add : Outstanding at the End		
Less : Outstanding at the Beginning		
Total		

Schedule 3 Commission

Commission on Direct Business		
Add : Commission on RI Accepted		
Less : Commission on RI ceded		
Total		

Schedule 4 Operating Expenses

1. Employee's Remuneration and Welfare benefits		
2. Travel, Conveyance and Vehicle Expenses		
3. Training Expenses		
4. Rent, Rates and Taxes		
5. Repairs		
6. Printing and Stationery		
7. Communication		
8. Legal and Professional Charges		
9. Auditor's fees and Expenses		
10. Advertisement and Publicity		
11. Interest and Bank Charges		
12. Others		
13. Depreciation		
Total		

SCHEDULES FORMING PART OF BALANCE SHEET

Schedule 5 Share Capital

Authorised		
....		
Issued, Subscribed and paid up		
....		
Less : Calls in Arrears		
Add : Balance in share forfeiture a/c		
Less : Expenses on Issue of Shares		
Total		

Schedule 6 Reserves and Surplus

1. Capital Reserve		
2. Capital Redemption Reserve		
3. Share Premium		
4. General Reserve		
5. Other Reserves		
6. Balance in Profit & Loss Account		
Total		

Schedule 7 Borrowings

Total		

Schedule 8 Investments

1. <u>Long Term Investments</u>		
Total		
2. <u>Short term Investments</u>		
Total		
Total (1 + 2)		

Schedule 9 Loans

1. <u>Security - wise Classification</u>		
Total		
2. <u>Borrower - wise Classification</u>		
Total		
3. <u>Performance - wise Classification</u>		
Total		
4. <u>Maturity - wise Classification</u>		
Total		

Schedule 10 Fixed Assets

	Gross Block	Accumulated Depreciation	Net Block
Total			
Previous Year			

Schedule 11 Cash and Bank Balance

1. Cash		
2. Bank Balance		
3. Money at Call and Short notice		
4. Others		
Total		

Schedule 12 Advances and Other Assets

1. <u>Advances</u>		
Total (A)		
2. <u>Other Assets</u>		
Total (B)		
Total (A + B)		

Schedule 13 Current Liabilities

Total		

Schedule 14 Provisions

Total		

Schedule 15 Miscellaneous Expenditure (To the Extent not written off or adjusted)

Total		

Revenue Account of Life Insurance Business

REVENUE ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 20.......

Policyholders' Account (Technical Account)

Particulars	Sch.	Current Year (₹)	Previous Year (₹)
Premiums earned - net			
(a) Premium	1		
(b) Reinsurance ceded			
(c) Reinsurance accepted			
Income from Investments			
(a) Interest, Dividends & Rent - (Gross)			
(b) Profit on sale / redemption of investments			
(c) (Loss on sale / redemption of investments)			
(d) Transfer / Gain on revaluation / change in fair value*			
Other Income (to be specified)			
TOTAL (A)			
Commission	2		
Operating Expenses related to Insurance Business	3		
Other Expenses (to be specified)			
Provisions (other than taxation)			
(a) For diminution in the value of investments (Net)			
(b) Other (to be specified)			
TOTAL (B)			
Benefits Paid (Net)	4		
Interim Bonuses Paid			
Change in valuation of liability against life policies in force			
(a) Gross			
(b) (Amount ceded in Reinsurance)			
(c) Amount accepted in Reinsurance			
TOTAL (C)			
SURPLUS / (DEFICIT) (D) = (A) - (B) - (C)			
Appropriations :			
Transfer to Shareholders' Account			
Transfer to Other Reserves (to be specified)			
Balance carried to Balance Sheet			

SCHEDULES FORMING PART OF REVENUE ACCOUNT

SCHEDULE - 1 : PREMIUM

Particulars	Current Year (₹)	Previous Year (₹)
1. First year premiums		
2. Renewal Premiums		
3. Single Premiums		
Total		
Premium Income from business written :		
1 In India		
2 Outside India		
Total		

SCHEDULE - 2 : COMMISSION EXPENSES

Particulars	Current Year (₹)	Previous Year (₹)
Direct - First year premiums		
- Renewal premiums		
- Single premiums		
Add : Commission on Re-insurance Accepted		
Less : Commission on Re-insurance Ceded		
Net Commission		

SCHEDULE - 3 : OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	Current Year (₹)	Previous Year (₹)
1. Employees' remuneration & welfare benefits		
2. Travel, conveyance and vehicle running expenses		
3. Training expenses		
4. Rents, rates & taxes		
5. Repairs		
6. Printing & stationery		
7. Communication expenses		
8. Legal & professional charges		
9. Medical fees		

10. Auditors' fees, expenses etc.		
(a) as auditor		
(b) as adviser or in any other capacity, in respect of		
(i) Taxation matters		
(ii) Insurance matters		
(iii) Management services; and		
(c) in any other capacity		
11. Advertisement and publicity		
12. Interest & Bank Charges		
13. Others (to be specified)		
14. Depreciation		
TOTAL		

SCHEDULE - 4 : BENEFITS PAID [NET]

Particulars	**Current Year (₹)**	**Previous Year (₹)**
1. Insurance Claims		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities / Pensions in payment,		
(d) Other benefits, specify		
2. (Amount ceded in reinsurance) :		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities / Pensions in payment,		
(d) Other benefits, specify		
3. Amount accepted in reinsurance :		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities / Pensions in payment,		
(d) Other benefits, specify		
Total		
Benefits paid to claimants :		
1 In India		
2 Outside India		
Total		

PART B : CLASSWORK SECTION

Q. 1. From the following balances as at March 31, 2011 in the books of General Insurance Co. Ltd. prepare a Revenue Account in respect of Fire Insurance business carried on by them.

	₹
Claims paid	4,80,000
Claims outstanding on April 1, 2010	40,000
Claims intimated and accepted, but not paid on March 31, 2011	70,000
Premium received	12,00,000
Re-insurance Premium paid	1,20,000
Commission on Direct Business	2,00,000
Commission on re-insurance ceded	8,000
Commission on re-insurance accepted	4,000
Administrative Expenses	1,60,000
Provision for unexpired risk on April 1	4,00,000
Additional provision for unexpired risk on April 1	20,600
Salaries	1,30,000
Re-insurance recoveries of claims	8,000
Survey expenses regarding claims	5,000
Printing and Stationery	3,500
Postage & Telegram	2,500
Profit on sale of furniture	54,500
Training Expenses	50,000
Interest and Dividends (Net)	8,000
Income tax deducted thereon	1,500
Rent, Rates and Taxes	2,500
Legal Expenses	4,000
Profit on sale of investments	3,500
Contribution to Providend Fund	6,000
Bad Debts	2,400
Depreciation of Furniture	4,600

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to the opening balance of Additional Reserve.

Q. 2. From the following information as on 31st March 2011, prepare the Revenue Account of the Indian Marine Insurance Co. Ltd.

			Direct Business	Reinsurance
			₹	₹
I.	**Premium :**			
	Received		46,00,000	7,20,000
	Receivable -	1st April	2,48,000	27,000
	-	31st March	3,36,000	34,000
	Paid		-	4,60,000
	Payable -	1st April	-	37,000
	-	31st March	-	62,000
II.	**Claims :**			
	Paid		23,50,000	3,00,000
	Payable -	1st April	1,66,000	39,000
	-	31st March	2,08,000	44,000
	Received		-	1,70,000
	Receivable -	1st April	-	16,000
	-	31st March	-	23,000
III.	**Commission :**			
	On Insurance accepted		2,20,000	19,000
	On Re-insurance ceded		-	26,000

IV. **Other Expenses and Income**
Salaries - ₹ 3,20,000, Rent Rates and Taxes ₹ 29,000; Postage & Telegrams ₹ 43,000; Indian Marine Tax paid -₹ 4,40,000; Interest, Dividends and Rent (Gross) ₹ 1,37,500; Income Tax deducted at Source ₹ 40,250; Legal expenses (inclusive of ₹ 40,000 in connection with settlement of claims) ₹ 72,000.

V. Balance of Fund on 1st April,₹ 38,45,000 including Additional Reserve of ₹ 4,45,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Q. 3. The following balances relate to the Sea Blessed Insurance Co. Ltd.

	Year ending 31st March, 2010	Year ending 31st March, 2011
Premiums	5,00,000	6,00,000
Commission on Direct Business	22,500	30,000
Commission on Re-insurance Accepted	17,500	25,000
Commission on Re-insurance ceded	4,000	24,000
Claims under Policies (paid during the year)	86,250	1,62,250
Depreciation on Furniture, car etc.	12,750	15,750
Profit on Sale of Motor Car	6,000	Nil

Loss on Sale of old furniture	Nil	2,000
Interest on Investments	14,000	7,000
Audit Fees	10,000	10,000
Salaries to staff	1,25,000	1,35,000
Printing, Postage and Stationery	46,500	57,500
Legal Expenses	5,000	4,000
Miscellaneous Expenses	15,500	22,500
Bad Debts	750	22,200
Recoveries in respect of claim under re-insurance	10,000	20,000
Re-insurance Premium	50,000	1,00,000

Total amounts of estimated liability in respect of outstanding claims as at 31-3-2009; 31-3-2010; 31-3-2011 were ₹ 34,250, ₹ 44,750 and ₹ 55,550 respectively.

Reserve for unexpired risks as at 31-3-2009 was ` 3,20,000 and the Additional Reserve was ₹ 32,000. Reserve for unexpired was to be provided for at 100% and Additional Reserve at 10% of the net Premium income for the year ending 31-3-2010 and 31-3-2011.

Prepare Marine Revenue Accounts of Sea Blessed Insurance Co. Ltd., for the year ending 31-3-2010 and 31-3-2011 in the prescribed form.

Q. 4. From the following balances extracted from the books of Perfect General Insurance Company Limited as on 31.3.2013 you are required to prepare Revenue Accounts in respect of Fire and marine Insurance business for the year ended 31.3.2013 to and a Profit and Loss Account for the same period:

	₹		₹
Directors' Fees	80,000	Interest received	19,000
Dividend received	1,00,000	Fixed Assets (1.4.2012)	90,000
Provision for Taxation (as on 1.4. 2012)	85,000	Income-tax paid during the year	60,000

	Fire ₹	Marine ₹
Outstanding Claims on 1.4. 2012	28,000	7,000
Claims paid	1,00,000	80,000
Claims Received	20,000	5,000
Reserve for Unexpired Risk on 1.4.2012	2,00,000	1,40,000
Premiums Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses of Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account :

(a) Depreciation on Fixed Assets to be provided at 10% p.a.

(b) Interest accrued on investments ₹ 10,000.

(c) Closing provision for taxation on 31.3. 2013 to be maintained at ₹ 1,24,138

(d) Claims outstanding on 31.3.2013 were Fire Insurance ₹ 10,000; Marine Insurance ₹ 15,000.

(e) Premium outstanding on 31.3.2013 were Fire Insurance ₹ 30,000; Marine Insurance ₹ 20,000.

(f) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire and Marine Insurance respectively.

(g) Expenses of management due on 31.3.2013 were ₹ 10,000 for Fire Insurance and ₹ 5,000 in respect of marine Insurance.

Q. 5. The following figures are from the books of Varuna Fire Insurance Co. Ltd. as at the end of their financial year ended 31st March, 2011.

	₹
Reserve for Unexpired Risk	6,20,000
Share Capital (₹ 10)	6,00,000
General Reserve	3,00,000
Additional Reserve	2,20,000
Investments in Central Government Securities	20,00,000
Profit & Loss A/c	50,000
Premiums	18,01,022
Re-insurance Premium	75,017
Claims Paid	4,01,877
Claims recovered from re-insurers	14,079
Commission on re-insurance ceded	32,011
Commission on direct business	1,99,777
Commission on re-insurance accepted	40,100
Outstanding Premiums	14,865
Claims intimated but not paid (1.4.2010)	40,000
Expenses of Management	2,87,965
Audit fees	12,000
Directors' fees	12,000
Rates and Taxes	3,869
Rents (Dr.)	45,000
Bank Loan	1,00,000
Share Transfer fees	2,000
Advance Tax	4,00,000
Sundry Creditors	15,000
Agents Balances (Dr.)	1,80,000
Cash in Hand	20,155
Cash at Bank	1,01,487

From the above, you are required to prepare Fire Revenue Account, Profit and Loss Account, and Balance Sheet of the Company, after taking into account the following :

(i) Income tax to be provided ₹ 2,50,000

(ii) Transfer to General Reserve ₹ 1,00,000

(iii) Proposed Dividend 12%.

(iv) Claims intimated but not paid as on 31st March, 2011, ₹ 60,800.

Q. 6. From the following information furnished to you by Ayushman Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form “Unexpired Risks Reserve Account” for 2013.

(a) On 31.12.2012, it had reserve for unexpired risks amounting to ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business, ₹ 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.

(b) Ayushman Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

(c) During 2013, the following business was conducted:

			(₹ in crores)
	Marine	**Fire**	**Miscellaneous**
Premium collected from:			
(a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in respect of risks undertaken	7.00	5.00	4.00
Premium paid / payable to other insurance companies on business ceded	6.70	4.30	7.00

Q. 7. From the following balance as at 31st March, 2011. In the books on the National Life Assurance Co. Ltd., prepare Profit and Loss Account and Balance Sheet.

	₹		₹
Life Insurance Fund on 1st April, 2010	34,00,000	Agents Balances	18,000
Annutities paid (in India 72,500)	81,750	Loans to ceding companies	47,000
General Reserve	2,25,000	Due from Re-insurers	38,500
Government Securities (with RBI)	2,10,000	Due to Re-insurers	47,500
Government Securities (Others)	10,90,000	Sundry Creditors	1,800

Foreign Government Securities	75,000	Premiums	: First Year	5,90,000
Loan on Company's Policies	2,10,000		: Renewal	1,20,000
Leasehold Buildings	63,300		: Reinsurance accepted	50,000
Securities on which interest is guaranteed			: Reinsurance ceded	70,000
by the government	4,50,000	Interim Bonus to Policy-holders		22,500
Stock of Shares of companies	14,50,000	Commission :	First Year	40,500
Share Capital (20,000 shares @ ₹ 100 each)	20,00,000		: Renewal	2,000
Mortgages in India	14,32,500		: Reinsurance accepted	12,000
Cash with bankers on Current Account	40,500		: Reinsurance ceded	4,000
Cash with Bankers on Deposit		Claims		
(short-term) Account	20,000	- By Death (in India 1,30,000)		2,00,000
Cash in hand	7,000	- By Maturity (in India 1,40,000)		2,20,000
State Govt.. Securities	7,25,000	Bank Loan		21,750
Furniture and Fixtures	39,000	Salaries		30,400
Outstanding Premiums	66,000	Auditors' Fees		5,400
Travelling Expenses	1,950	Law Charges		3,400
Interest and Rents Received	2,16,000	Rent Paid		3,000
Other Expenses of Management	750	Medical Fees		600

Transfer the surplus amount if any to Life Fund for the year ended 31st March, 2011 & 5% Dividend is also proposed.

CHAPTER - 8 FINANCIAL STATEMENTS OF BANKING COMPANIES

PART A : THEORY SECTION

*** IMPORTANT CONCEPTS ***

I. Revenue Recognition

Advances

Performing Assets	Non - performing Assets
↓	↓
Interest & Discount Income is recognised on **ACCRUAL** basis	Interest & Discount Income is recognised on **CASH** basis.

II. Rebate on Bills Discounted (Unexpired Discount)

When a client has discounted bill with the bank, the bank will have following entry-

Bills purchased and Discounted A/c	Dr.	xx	
To Cash / Clients A/c		xx	
To Discount on bills Discounted A/c			xx

If the maturity date falls in the next Accounting year, a part of the discount is considered as unexpired discount for which following adjustments entry is required -

Discount on Bills Discounted A/c	Dr.	xx
To Rebate on Bills Discounted A/c		xx

Note : The unexpired discount of this year is carried forward to next year and similarly unexpired discount of last year is brought forward in the current year.

$\therefore$ Interest Income for the year = Opening Rebate + Discount Received - Closing Rebate

III. Rule for Valuation of Investments

INVESTMENTS

Held to maturity Investments	**Held for Trading Investments**	**Available for sale Investments**
↓	↓	↓
Valued at cost price	Valued at cost / Market price whichever is less	Valued at cost / Market whichever is less

IV. Rules for loss provisions (RDD)

Advances

Standard Assets

(1) Advances to agriculture Sector and SME
RDD = 0.25%

(2) Advances to commercial Real Estate Sector
RDD = 1%

(3) Other Advances
RDD = 0.4%

Sub Standard Assets

(1) Secured Advances
RDD = 15%

(2) Unsecured Advances
- (a) With ESCROW a/c
  RDD = 20%
- (b) Others
  RDD = 25%

Doubtful Assets

(1) Secured
- (a) Upto 1 year
  RDD = 25%
- (b) More than 1 and upto 3 years
  RDD = 40%
- (c) More than 3 years
  RDD = 100%

(2) Unsecured
RDD = 100%

Loss assets

RDD = 100%

V. Advance with ECGC / DIGC cover

Advances

Secured Portion	**Unsecured Portion**	
Create RDD as Per Rule	Advance	xx
	(-) ECGC or DICGC cover	xx
		xx
	Create RDD as Per Rule	

→ ECGC / DICGC covers risk of bad debts from advances given by bank to the extent of unsecured portion i.e. RDD provisions will proportionately reduce for unsecured portion as part of bad debts will be compensated back to the bank by the credit guarantee corporations.

VI. Treatment of Bills for collection

When the bank has received bills for collection purpose, it is technically a non - accounting item because no payment is involved at this stage but still the bank brings them **"on records"** for which it prepares following two accounts -

1. Bills for collection (Assets) A/c
2. Bills for collection (Liabilities) A/c

The Accounting entries will be as under :

1. **For Receipt of bills -**

BFC (Assets) A/c	Dr.	xx	
To BFC (Liabilities) A/c			xx

2. **For Bill Dishonored on due date**

BFC (Liabilities) A/c	Dr.	xx	
To BFC (Assets) A/c			xx

3. **For Bill money collected on due dates**

(a)	Cash A/c	Dr.	xx	
	To Cash A/c			xx
	To Commission A/c			
(b)	BFC (Liabilities) A/c	Dr.	xx	
	To BFC (Assets) A/c			xx

Note : The final balance in this two Accounts will represent bills still in hand for collection purpose which will appear as **"off balance sheet item"** in Final Accounts.

VII. Acceptances and Endorsements

When the bank has accepted / guaranteed bills on behalf of its clients, for bank it is a sort of contingent liability (A Non - Accounting item) but still the bank brings this **"on records"** by preparing following two accounts in its General Ledger -

1. Acceptances, Endorsements & Other Obligations (Asset) A/c
2. Acceptances, Endorsements & Others Obligations (Liabilities) A/c

The accounting entries in these two accounts are passed as under -

1. **For acceptance of bill**

A, E & O (asset) A/c	Dr.	xx	
To A, E & O (Liabilities) A/c			xx

2. **For bill honoured by client himself**

A, E & O (Liabilities) A/c	Dr.	xx	
To A, E & O (Asset) A/c			xx

3. **For Bill honoured by bank on clients failure**

(a) Client A/c	Dr.	xx	
To Cash A/c			xx
(b) A, E & O (Liabilities) A/c	Dr.	xx	
To A, E & O (Asset) A/c			xx

Note : The closing balance in these two accounts represents the bills accepted / Guaranteed which will mature in next year & it will appear as **"Contingent Liability"** in Final Accounts.

VIII. Capital Adequacy Norm

As per Basel Committee Report (Basle II Norms) every commercial bank should maintain capital Adequacy ratio at minimum 9%.

$$\text{Capital Adequacy ratio} = \frac{\text{Capital fund}}{\text{Risk weighted asset.}} \times 100$$

<u>**Capital fund**</u> :

Tier I (Core capital)		Tier II Capital (Less permanent)		
Paid up Equity share Capital	xx	Undisclosed Reserves		xx
(+)All reserves & surplus	xx	Revaluation Reserve	xx	
(excluding Revaluation reserve)		(-) Discounting (55%)	xx	xx
(-) Intangible / fictitious assets	(xx)	General Provisions and		
(-) Current & b/f losses	(xx)	loss Reserves		xx
(-) Equity investments in		Hybrid debt capitl Instruments		xx
Subsidiaries	(xx)	Subordinated Debts		xx
	xx	Investment Reserves		xx
				xx

Risk adjusted /weighted assets

Weights to be assigned to assets (in brief) for calculating capital adequacy ratio -

	Assets	Weighted in %
1.	Cash balance, Balance with RBI & advances guaranteed by Govt.	0%
2.	Balance with other banks, advances guaranteed by banks	20%
3.	Advance against DIGCC / ECGC	50%
4.	Other off Balance Sheet items	100%
5.	Non funded exposure to real estate	150%

Balance Sheet As on

	Schedule No.	Current Year	Previous Year
Capital And Liabilities			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
Total			
Assets			
Cash and Balance with RBI	6		
Balance with Banks & Money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
Total			
Contingent Liabilities	12		
Bills for collection			

Profit / Loss Account for the year ended...

I	**Income**			
	Interest Earned	13		
	Other Incomes	14		
	Total			
I	**Expenditure**			
	Interest Expended	15		
	Operating Expenses	16		
	Provision and Contingencies			
	Total			
III	**Profit / (-) Loss**			
	Profit / (-) Loss for the year			
	Profit / (-) Loss brought forward			
	Total			
IV	**Appropriations**			
	Transfer to Statutory Reserve			
	Transfer to other Reserves			
	Transfer to Government / Proposed dividends			
	Balance carried over to Balance Sheet			
	Total			

Schedules forming part of Balance Sheet	C.Y.	P.Y.
<u>Schedule -1 Capital</u>		
I For Nationalised Banks		
Capital (Wholly owned by the central government)		
II For bank incorporated outside India :		
(i) The amount of capital brought in by the banks		
(a) Start up capital should be shown under this head (As prescribed by RBI)		
(ii) The amount of deposits maintained with the RBI as per the provision of sec. 11 (2) of the Banking Regulation Act. 1949 should be shown under this head.		
Total		
III For other Banks :		
Authorised Capital [—Shares of ₹ each]		
Issued Capital [—Shares of ₹ each]		
Subscribed Capital [—Shares of ₹ each]		
Called up Capital [—Shares of ₹ each ₹ ___called up]		
Less : Calls unpaid		
Add : Forfeited shares		
<u>Schedule—2 : Reserves & Surplus</u>		
I Statutory Reserve		
I Capital Reserve		
III Share Premium		
IV Revenue & Other Reserves		
V Balance in the P/L A/c		
Total		

Schedule - 3 - Deposits		
A)		
I Demand Deposits :		
I Savings Bank Deposits		
III Term Deposits		
Total		
B)		
I Deposits of Branches in India		
I Deposits of Branches outside India		
Total		
Schedule - 4 Borrowing		
I Borrowings in India		
I Borrowings from outside India		
[Secured Borrowings ______________]		
Total		
Schedule - 5 : Other Liabilities		
I Bills Payable		
I Inter-Office adjustments (Net)		
III Interest accrued		
IV Others including provisions (for e.g. provision for tax, Proposed dividends, Rebate on bills discounted, Provision for doubtful debts etc.)		
Total		
Schedule - 6 : Cash & Balances with RBI		
I Cash in hand (Including foreign currency notes)		
I Balances with RBI		
Total		
Schedule -7 : Balances with Banks & Money a call & short Notice		
I In India		
Total		

II **Outside India :**		
Total		
Grand Total (I & II)		
Schedule - 8 Investments		
I **In India :**		
Total		
II **Outside India**		
Total		
Grand Total (I + II)		
Schedule - 9 Advances		
(A)		
(i) Bills purchased & discounted		
(ii) Cash Credits, overdrafts and loans payable on demand		
(iii) Term Loans		
Total		
(B)		
(i) Secured by tangible assets		
(ii) Covered by bank / govt. guarantees		
(iii) Unsecured		
Total		
(C)		
I In India		
I Outside India		
Total		

Schedule -10 Fixed Assets		
I Premises :		
Cost		
Less : Depreciation upto date (Accumulated)		
I Other (Including Furniture & Fixtures)		
Cost		
Less : Depreciation upto date (Accumulated)		
Total		
Schedule -11 Other Assets		
I Inter office adjustments (Net)		
I Interest Accrued		
III Tax Paid in Advance / TDS		
IV Stationery & Stamps		
V Non banking assets (acquired in satisfaction of claims)		
vi Other		
Total		
Schedule -12 Contingent Liabilities		
I Claims against bank not acknowledged as debts		
I Liability on Account of partly paid investment		
III Liability on Account of outstanding forward exchange contracts		
IV Guarantees given on behalf of clients		
V Acceptances, endorsement and other obligations		
VI Others		
Total		

Schedules forming part of Profit & Loss A/c		C. Y.	P. Y.
Schedule -13 Interest Earned			
I	Interest/discount on Advance / Bills		
II	Income from Investments		
III	Interest on balance with RBI & other inter bank funds		
IV	Others		
	Total		
Schedule -14 Other Incomes			
I	Commission, exchanges & brokerage		
II	Profit on sale of investments		
	(-) Loss on sale of investments		
III	Profit on revaluation of investments		
	(-) loss on revaluation of investments		
IV	Profit on sale of land, bldg. & other assets		
	(-) Loss on sale of land, bldg & other assets		
V	Profit on exchange transactions		
	(-) Loss on exchange transactions		
VI	Income earned by way of dividends etc. from subsidiaries & joint venture abroad or in India		
VII	Miscellaneous income		
	Total		
Schedule - 15 Interest Expended			
I	Interest on deposits		
II	Interest on RBI / Inter bank borrowings		
III	Others		
	Total		
Schedule -16 Operating Expenses			
I	Payment to and provision for employees		
II	Rent, taxes & lighting		
III	Printing & Stationery		
IV	Advertisement & Publicity		
V	Depreciation on banks properties		
VI	Director's fees, allowances and expenses		
VII	Auditors fees & allowances [including branch auditors]		
VIII	Law Charges		
IX	Postage, telegrams, & telephones, etc.		
X	Repairs & Maintenance		
XI	Insurance		
XII	Others		
	Total		

PART B : CLASSWORK SECTION

Q. 1. Following are the statements of interest on advance in respect of performing and non-performing assets of Madura Bank Ltd. find out the income to be recognised for the year ended 31st March 2011.

	(₹ in Lakhs)	
Performing Assets	**Interest Earned**	**Interest Received**
Cash Credits and Overdrafts	1,800	1060
Term Loan	480	320
Bills purchased and Discounted	700	550
Non- Performing Assets		
Cash Credits and Overdrafts	450	70
Term Loan	300	40
Bills purchased and Discounted	350	36

Q. 2. As on 31st March, 2017, the books of the Herucles Bank, include among others, the following balances :

	₹
Rebate on bills discounted (1.4.2016)	3,20,000
Discount received	46,00,000
Bills discounted and purchased	3,15,47,000
Bills for collection	12,00,000

Throughout 2016-2017, the Bank's rate for discounting has been 18% and the rate of commission on bills for collection, 4%.

On investigation, and analysis, the average due date for the bills discounted and purchased is calculated as 15th May, 2017 and that for collection as 15th April, 2017.

Show the calculation of the amount to be credited to the Bank's Profit and Loss Account under discount earned for the year 2016-2017. Show also the journal entries required to adjust the above mentioned accounts.

Q. 3. The following is an extract from Trial Balance of Overseas Bank Ltd. as at 31st March, 2017.

	₹	₹
Bills discounted	12,64,000	
Rebate on bills discounted not due		
On March 31st, 2016		22,160
Discount received		1,05,708

An analysis of the bills discounted is as follows :

	Amount ₹	Due Date 2017	Rate of discount (%)
(i)	1,40,000	June 5	14
(ii)	4,36,000	June 12	14
(iii)	2,82,000	June 25	14
(iv)	4,06,000	July 6	16

Calculate Rebate on Bills Discounted as on 31.3.2017 and show necessary journal entries.

Q. 4. On 31st March, 2016, Uncertain Bank Ltd. had a balance of ₹ 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2017, Uncertain Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the accepts / customers after 31st March, 2017, the average period outstanding after 31st March, 2017 being 36.5 days.

Uncertain Bank Ltd. asks you to show the ledger accounts pertaining to :

(i) discounting of bills of exchange and

(ii) rebate on bills discounted.

Q. 5. From the following information find out the amount of provisions to be shown in the Profit and Loss Account of a commercial bank.

			₹ in lakhs
Assets			
Standard			5,000
Sub-standard			4,000
Doubtful	:	for one year	800
	:	for two years	600
	:	for more than three years	200
Loss Assets			1,000

Q. 6. From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a commercial bank for the year ended 31st March, 2011 :

(i) Packing credit outstanding from Food Processors ₹ 60 lakhs which the bank holds securities worth ₹ 15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for 3 years.

(ii) Other advances :

Assets classification	₹ in lakhs
Standard	7,000
Sub-standard (includes secured exposures ₹1000 lacs & balance unsecured exposure of ₹ 2500 lacs includes ₹ 1500 lacs in respect of infrastructure loan a/c where escrow a/c is available)	3,500
Doubtful : (Secured)	
Upto one year	500
More than 1 year upto three years	600
For more than 3 years	300
Loss assets	200
Doubtful : (Unsecured)	1,500

Q. 7. Mohan Bank Ltd., gives you the following information for the year 2016 - 2017

(i) Export credit given ₹ 50 lakhs
ECGC cover 40%
Securities held ₹10 lakhs(realisable value of ₹ 12 lakhs)
Period for which the advance has remained doubtful 2 years

(ii) Term Loan ₹ 75 lakhs
DICGC cover 50% (maximum limit ₹ 20 lakhs)
Securities held ₹ 20 lakhs (realisable value ₹ 18 lakhs)
Period for which the loan has remained doubtful 1 year

You are asked to compute the provision required on the above advances.

Q. 8. From the following details prepare "Acceptances, Endorsements and other Obligation A/cs" as would appear in the general ledger.

On 1.4.2016 Acceptances not yet satisfied stood ₹ 22,30,000. Out of which ₹ 20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance Register revealed the following :

Dates	Client	Acceptances / Guarantees ₹	Remarks
3.4.2016	A	10,00,000	Bank honoured on 10.6.2016
16.7.2016	B	12,00,000	Party paid off on 30.9.2016
1.9.2016	C	5,00,000	Party failed to pay and bank had to honour on 30.11.2016
16.10.2016	D	8,00,000	Not satisfied upto 31.3.2017
19.11.2016	E	5,00,000	-do-
2.12.2016	F	2,70,000	-do-
	Total	**42,70,000**	

Q. 9. From the following information, prepare Profit and Loss A/c of Modern Bank Ltd. as on 31.3.2011:

Previous year '000 ₹	Items	Current Year '000 ₹
14,27	Interest and Discount	20,45
1,14	Income from Investments	1,12
1,55	Interest on Balances with RBI	1,77
7,22	Commission, Exchange and brokerage	7,12
12	Profit on Sale of Investments	1,22
6,12	Interest on Deposit	8,22
1,27	Interest on RBI Borrowings	1,47
7,27	Payment to and provision for Employees	8,55
1,58	Rent, Taxes and Lighting	1,79
1,47	Printing and Stationery	2,12
1,12	Advertisement and Publicity	98
98	Depreciation	98
1,48	Director's Fees	2,12
1,10	Auditor's Fees	1,10
50	Law Charges	1,52
48	Postage, Telegrams and Telephones	62
42	Insurance	52
57	Repair & Maintenance	66

Also give necessary Schedules.

Other Information :

(i) The following items are already adjusted with Interest and Discount (Cr.) :

Tax Provision ('000 ₹)	1,48
Provision for Doubtful Debts ('000 ₹)	92
Loss on sale of investments ('000 ₹)	12
Rebate on Bills Discounted ('000 ₹)	55

(ii) Appropriations :

25% of profit is transferred to Statutory Reserves.

5% of profit is transferred to Revenue Reserves.

Q. 10. From the following information, prepare Profit and Loss A/c of Hyderabad Bank Ltd. for the year ended 31st March 2011.

Items	'000 ₹
Interest on Cash Credit	18,20
Interest on Overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Rebate or Bills Discounted (1.4.2010)	1,20
Discount on bills Discounted	1,18
Rent Received	82
Profit on sale of land and building	27
Rebate on Bills Discounted	52
Interest paid on deposit	17,20
Auditor's fees and allowances	1,20
Directors fees and allowances	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Depreciation	1,40
Payment to Provident Fund	2,80
Printing and Stationery	1,40
Repairs and Maintenance	50
Postage, telegrams, telephones	80

Other Information :

(i) Interest on NPA is as follows :

	Earned (₹ '000)	Collected (₹ '000)
Cash Credit	820	4,00
Overdraft	450	1,00
Term Loans	750	2,50

(ii) Classification of advances ('000 ₹)

(a)	Sub-standard :	1,120
(b)	Doubtful assets covered by security for 3 years	2,00
(c)	Doubtful assets covered by security for one year :	60
(d)	Loss Assets :	2,00

(iii) Investments : 27,50

Bank should not keep more than 25% of its investments as held to maturity investment. The market value of its held for trading 75% investment is ₹ 2052.50 thousands as on 31.3.2017.

(iv) Provide for tax @ 40%.

Q. 11. From the following Ledger balances, prepare final balance sheet of South Indian Bank as on 31st March, 2017 giving the relevant schedules :

('000 ₹)

	Dr.	**Cr.**
Share Capital		
19,80,000 shares of ₹ 10 each		198,00
Statutory Reserve		231,00
Net Profit (before appropriations)		150,00
Profit and Loss A/c		412,00
Fixed Deposit		517,00
Saving Deposit		450,00
Current Accounts	28,00	520,12
Borrowings from other Banks		110,00
Bills payable		10
Cash credits	812,10	
Cash in hand	160,15	
Cash with RBI	37,88	
Cash with other banks	155,87	
Money at Call	210,12	
Gold	55,23	
Government Securities	110,17	
Premises	155,70	
Furniture	70,12	
Term Loans	792,88	
	25,88,22	**25,88,22**

(i) Necessary transfer is to be made from cash with other banks to maintain 3% cash reserve on fixed, savings and current accounts with RBI.

(ii) Bills for collection ₹ 18,10,000.

(iii) Acceptances and endorsement ₹ 14,12,000.

(iv) Claims against bank not acknowledged as debt ₹ 5,50,000.

(v) Depreciation (Accumulated)

Premises ₹ 1,10,000 Furniture ₹ 78,000.

(vi) 50% of term loans are secured by Government guarantees. 10% of cash credits are unsecured. Other portion is secured by tangible assets.

Q. 12. The following Trial balance of Citizen Bank Ltd. as on 31st March, 2017 :

	₹ (Dr.)	₹ (Cr.)
Issued Capital (Equity shares of ₹ 100 each)	----	1,50,000
Interest paid on Deposits and borrowings	48,500	
Loss on sale of Investment	12,600	
Provident fund Contribution	9,200	
Director's Fees	5,500	
Stationery, Printing and Advertisement	5,600	
Auditor's fees	1,200	
General Expenses	2,700	
Commission, Exchange and brokerage		49,400
Profit on sale of Gold		35,900
Loan from other Banks		2,20,000
Term Loan	20,000	
Statutory Reserve		80,000
Rebate on BIlls Discounted (1.4.2016)		20,000
Demand, loans and cash credits	3,80,000	
Bank Premises	60,000	
Kerala Govt. Bonds	80,000	
Government of India Securities	4,20,000	
Current Accounts		5,85,000
Income from Investments		15,000
Profit an Loss Account on 1.4.2016		25,000
Money at call and short notice	70,000	
Bills discounted	73,000	
Shares of other companies	1,17,000	
Cash in hand and with Reserve Bank of India	1,10,000	
Cash at Banks	3,00,000	
Advance Income tax	9,000	
Salaries and allowances	73,500	
Interest and Discount		1,70,000
Interim Dividend paid	7,500	
Deposits and Savings Bank Accounts		4,55,000
Bills for collection	2,00,000	2,00,000
Acceptances and Endorsements	1,50,000	1,50,000
	21,55,300	**21,55,300**

Additional information :

(i) The bills discounted mature at an average date May 20th, (including days of grace). All bills are discounted at 10% p.a.

(ii) Claims against the Bank not acknowledged as Debts ₹ 2,00,000.

(iii) Provide 5% depreciation on o.c. of premises.Balance on Provision for Depreciation is ₹ 30,000 is to be made @ 30%.

(iv) Provision for taxation for current year is ₹ 13,000.

(v) Interest accrued on Investments ₹ 750.

(vi) Details of Advances are as under :

Amount (₹)	Security (Value as on 31.3.2017)
73,000	Secured by Gold.
1,70,000	Government Securities ₹ 1,80,500
70,000	Guaranteed by Directors.
10,000	Shares in Textiles ₹ 6,000
1,75,000	Bank Guarantee.
50,000	Gold value of ₹ 85,000
40,000	Debenture of a Company value of security ₹ 46,000
5,88,000	

(vii) Assume that all Advances are Standard Assets.

(viii) The Balance in Current Account is after adjusting overdrafts ₹ 1,15,000.

You are required to prepare Profit and Loss account for the year ended 31st March, 2011 and Balance Sheet of the Bank as at that date.

Q. 13. Perfect Bank Ltd. has the following capital funds and assets. Find out the Tier I and Tier II capitals, risk- adjusted assets and risk - weighted asset ratio.

Capital funds :	**(Crores of Rupees)**
Equity Share Capital	200
Statutory Reserves	30
Capital Reserve (of which ₹ 5 crores was due to revaluation of assets)	15
Share Premium	10
Undisclosed REserves	10
General Reserve	20

Assets :	
Cash Balance	10
Balance with RBI	5
Balance with other Banks	12
Certificate of Deposits with other Commercial Banks	20
Equity investment in subsidiaries	12
Other investments	78
Loans and advances :	
(i) Guaranteed by Government	100
(ii) Guaranteed by Public Sector	200
(iii) Others	1,500
Premises, furniture & fixtures	100
Other assets	120
Fictitious assets	10
Off - Balance Sheet items	
Acceptances, endorsements and letters of credit	800

CHAPTER NO . 9 FINANCIAL REPORTING FOR FINANCIAL INSTITUTIONS

Q. 1. Mutual Fund raised funds on 1.4.2011 by issuing 10 lakhs units @ ₹ 17.50 per unit. Out of this Fund, ₹ 160 lakhs invested in several capital market instruments. The initial expenses amounts to ₹ 9 lakhs. During June 2011, the Fund sold certain Securities worth ₹ 100 lakhs for ₹ 125 lakhs and it bought certain securities for ₹ 90 lakhs. The Fund Management expenses amounting to ₹ 5 lakhs per month. The dividend earned was ₹ 3 lakhs. 80% of realized earnings were distributed among the unit holders. The market value of the portfolio was ₹ 175 lakhs. Determine Net Asset Value (NAV) per unit as on 30.6.2011.

Q. 2. On 1.4.2011, a mutual fund scheme had 18 lakhs of unit of face value of ₹ 10 each was outstanding. The scheme earned ₹ 162 lakhs in 2011-12, out of which ₹ 90 lakhs was earned in the first half of the year. On 30.9.2011, 2 lakhs of unit were sold at a "NAV" of ₹ 70. Pass journal entries for sale of units and distribution of dividend at the end of 2011-12.

Q. 3. A Mutual Fund raised 100 lakh on April 1, 2012 by issue of 10 lakh units of ₹ 10 per unit. The fund invested in several capital market instruments to build a portfolio of ₹ 90 lakhs. The initial expenses amounted to ₹ 7 lakh. During April, 2012, the fund sold certain securities of cost ₹ 38 lakhs for ₹ 40 lakhs and purchased certain other securities for ₹ 28.20 lakhs. The fund management expenses for the month amounted to ₹ 4.50 lakhs of which ₹ 0.25 lakh was in arrears. The dividend earned was ₹ 1.20 lakhs. 75% of the realised earnings were distributed. The market value of the portfolio on 30.4.2012 was ₹ 101.90 lakh. Determine NAV per unit.

Q. 4. Shrewd Mutual Funds have introduced a scheme "Primo - Fund". Its major details are :

(a) Scheme Size = 100 Crores

(b) Face Value per unit : ₹ 20

(c) Investments in Quoted Shares having Market Value ₹ 150 Crore

Compute the NAV per unit of the Fund. Is there an appreciation of the value invested in Units of the Fund?

Q. 5. Calculate the NAV of a Mutual Fund scheme from the information given below :

Beginning of the year :

Number of Units outstanding	1.8 Crores of ₹ 10 each
Investments at Cost	₹ 20 Crores (Market Value ₹ 37 Crores)
Outstanding Liabilities	₹ 1 Crore

Other Information :

1. Another 15 Lakh units were sold during the year at ₹ 24.
2. 35 Lakh units were repurchased during the year and 10% of the opening investments were sold for ₹ 3.50 Crores to finance the repurchase.
3. No additional investments were made during the year as at the year - end, 50% of the Investments at year beginning were quoted at 80% above the book value.
4. 10% of the Investments had witnessed a permanent fall of 20% below cost.
5. The balance investments were quoted at ₹ 20 Crores.
6. Outstanding liabilities towards Custodian Charges, Salaries, Commission etc. applicable to the Scheme were ₹ 1.6 Crores.
7. There are no other assets and liabilities of the fund.

Q. 6. Anischit Finance Ltd., is a non - banking finance company. It makes available to you the costs and market price of various investments held by it. (Figures in Lakhs) as on 31.3.2012.

Scrips	Cost	Market Price	Scrips	Cost	Market Price
Equity Shares A	60.00	61.20	Mutual Fund MF 1	39.00	24.00
B	31.50	24.00	MF 2	30.00	21.00
C	60.00	36.00	MF 3	6.00	9.00
D	60.00	120.00			
E	90.00	105.00			
F	75.00	90.00	Government Securities GV 1	60.00	66.00
G	30.00	6.00	GV 2	75.00	72.00

1. Can the company adjust depreciation of a particular item of investment within a category?
2. What should be the value of investments as on 31.3.2012?
3. It is possible to set - off depreciation in investment in mutual funds against appreciation of the value investment in Equity Shares and Government Securities?

Q. 7. While closing its books of account on 31st March, a NBFC has its advances classified as follows:

Particulars		₹ Lakhs	Particulars	₹ Lakhs
Standard Assets		8,400	Unsecured Portion of Doubtful Debts	87
Sub - Standard Assets		910	Loss Assets	24
Secured Portions of Doubtful Debts :	upto one year	160		
	one year to three years	70		
	more than three years	20		

Calculate the amount of provision which must be made against the advances.

Q. 8. While closing its books of account on 31st March, 2012 a Non - banking Finance Company has its advances classified as follows :

Particulars		₹ in Lakhs
Standard Assets		16,800
Sub - standard assets		1,340
Secured positions of doubtful debts :	upto one year	320
	one year to three years	90
	more than three years	30
Unsecured portions of doubtful debts		97
Loss assets		48

Calculate the amount of provision, which must be made against the Advances.

Q. 9. Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-2011. Few machines were sold on hire purchase basis. The hire purchase price was set as ₹100 as against the cash price of ₹80 lakhs. The amount was payable as ₹20 lakhs down payment and balance in 5 equal installments. The hire vendor collected first installment as on 31-03-2012, but could not collect the second installment which was due on 31-03-2013. The company was finalizing accounts for the year ending 31-03-2013. Till 15-05-2013, the date 'on which the' Board of Directors signed the accounts, the second installment was not collected. Presume IRR to be 10.42%.

Required:

i. What should be the principal outstanding on 1-4-2012? Should the company recognize finance charge for the year 2012-13 as income?

ii. What should be the net book value of assets as on 31-03-2013 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?

(iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

CHAPTER - 10

VALUATION OF GOODWILL

The goodwill is the reputation of the business which is measured in monetary terms and based on the profits generated by the business. The need for valuation of goodwill would arise at various stages. For eg :- admission, retirement or death of a partner, sale of business, scheme of absorption etc.

The methods of valuation of goodwill are as follows :

1) Super profits method
2) Capitalisation method
3) Annuity method

Super Profits Method :

This method would involve the following steps :-

1) Average Profits
2) Future Maintainable Profit (F.M.P.)
3) Closing Capital Employed
4) Average Capital Employed
5) Normal Rate of Return (NRR) (If not provided)
6) Normal Profits
7) Super Profit
8) Goodwill

1) Average Profit :

The average profit is based on the past profits. The average can be calculated either on the basis of simple average or weighted average. If the profits of the past are showing a continuously increasing or decreasing trend then the weighted average method is more preferable. While computing the average, it should be based on the operating profits. Hence, if there are non-operating incomes and expenses, then they are to be eliminated from the given profits.

2) Future Maintainable Profit (FMP) :

Average profit as above	xx
(+) Decrease in expenses	xx
(-) Increase in expenses	(xx)
(+) Increase in Income	xx
(-) Decrease in Income	(xx)
FMP before tax	xx
(-) Tax	(xx)
FMP after tax	xx

3) Closing Capital Employed:

It is the investment in the business at the end of the accounting year. While computing the capital employed the following assets should not be considered :-

a) Fictitious assets

b) Non – trade Investments

c) Accumulated losses

All outside liabilities whether short term or long term are to be deducted while calculating capital employed. This would mean that the closing capital employed represents the share holders funds. If no information is given in the question the shareholders funds approach is to be adopted.

Notes

4) Average Capital Employed:

Since FMP is based on average profits then the expected return should also be based on average capital employed for the sake of comparability. However this is an alternative approach to closing capital employed. The average capital employed can be calculated in the following manner under different alternatives

Remarks :

5) Normal Rate of Return (NRR) :

It is the expectation of the investors from this particular class of business. It is combination of the following :-

a) Risk free rate

b) Allowance for business risks and

c) Allowance for financial risks because of a high debt equity ratio

6) Normal profits :

Normal Prtofits = Closing / Average Capital Employed × NRR

7) Super Profits :

Super Profits = FMP - Normal Profits

8) Goodwill :

Goodwill = Super profits × No. of years of purchase

In the event the number of years of purchase is not given, then generally take 3 years purchase. However if the profit of the past are showing an increasing trend then 5 years purchase is also acceptable.

OTHER METHODS :

1. Capitalisation method of Super Profit :

   Goodwill =

2. Capitalisation method of F.M.P. :

   Goodwill =

3. Annuity method :

   Goodwill = Super Profits x Annuity factor

PART B : CLASSWORK SECTION

Q. 1. Negotiation is going on for transfer of X Ltd. on the basis of the Balance Sheet and the additional information as given below :

BALANCE SHEET OF X LTD. AS ON 31ST MARCH, 2012.

	₹		₹
Share Capital			
(₹ 10 fully paid up share)	10,00,000	Goodwill	1,00,000
Reserve and Surplus	4,00,000	Land & Building	3,00,000
Sundry Creditors	3,00,000	Plant and Machinery	8,00,000
		Investment	1,00,000
		Stock	2,00,000
		Debtors	1,50,000
		Cash and Bank	50,000
	17,00,000		**17,00,000**

Profit before tax for 2011-2012 amounted to ₹ 6,00,000 including ₹ 10,000 as interest on investment. However, an additional amount of ₹ 50,000 p.a. shall be required to be spent for smooth running of the business.

Market values of Land and Buildings and Plant and Machinery are estimated at ₹ 9,00,000, and ₹ 10,00,000 respectively. In order to match the above figures further depreciation to the extent of ₹ 40,000 should be taken into consideration. Income tax rate may be taken at 50%. Return on capital at the rate of 20% before tax may be considered normal for this business at the present stage.

For the purpose of determining the rate of return, profit for this year after the aforesaid adjustments may be taken as the expected average profit. Similarly, average trading capital employed is also to be considered on the basis of the position in this year.

It has been agreed that 4 years purchase of super profit shall be taken as the value of goodwill for the purpose of the deal.

You are requested to calculate the value of goodwill of the company.

Q. 2. From the following information supplied to you, ascertain the value of goodwill of A Ltd., which is carrying on business as retail trader, under Super Profit Method at 5 years of purchase after Super Profit Method: :

BALANCE SHEET AS ON 31ST MARCH, 2012

	₹		₹
Paid up capital :		Goodwill at cost	50,000
5,000 shares of ₹ 100 each		Land & Building	2,20,000
fully paid	5,00,000	Plant & Machinery	2,00,000
Bank Overdraft	1,16,700	Stock in trade	3,00,000
Sundry Creditors	1,81,000	Book debts less provision	
Provision for taxation	39,000	for bad debts	1,80,000
Profit & Loss Appropriation a/c.	1,13,300		
	9,50,000		**9,50,000**

The company commenced operations in 1986 with a paid up capital of ₹ 5,00,000. Profits for recent year (after taxation) have been as follows :

Year ended 31st March	₹
2008	40,000 (loss)
2009	88,000
2010	1,03,000
2011	1,16,000
2012	1,30,000

The loss in 2007-08 occurred due to prolonged strike.

The income-tax paid so far has been at the average rate of 40%, but it is likely to be 50% from 2012-13 onwards. Dividends were distributed at the rate of 10% on the paid up capital in 2008-09 and 2009-10 and the rate of 15% in 2010-11 and 2011-12. The market price of shares is ruling at ₹ 125 at the end of the year ended 31st March, 2012. Profits till 31.3.12 have been ascertained after debiting ₹ 40,000 as remuneration to the managing director. The government has approved a remuneration of ₹ 60,000 with effect from 1st April, 2012. The company has been able to secure a contract for supply of materials at advantageous prices. The advantage has been valued at ₹ 40,000 per annum for the next five years.

Q. 3. On 31st March, 2012, the Balance Sheet of Menon Ltd. was as follow :

	₹		₹
Share Capital :		Land & Buildings	2,20,000
Authorised & Issued :		Plant and Machinery	95,000
5,000 equity shares of		Stock	3,50,000
₹ 100 each fully paid	5,00,000	Sundry Debtors	1,55,000
Profit and Loss A/c	1,03,000		
Bank Overdraft	20,000		
Creditors	77,000		
Provision for Taxation	45,000		
Proposed Dividend	75,000		
	8,20,000		**8,20,000**

The net profits of the company, after deducting all working charges and providing for depreciation and taxation, were as under :

Year ended 31st March	₹
2008	85,000
2009	96,000
2010	90,000
2011	1,00,000
2012	95,000

On 31st March, 2012 Land and Buildings were valued at ₹ 2,50,000 and Plant and Machinery at ₹ 1,50,000.

In view of the nature of the business, it is considered that 10% is a reasonable return on tangible capital.

Value goodwill based on five years purchase of the super profits based on the average profit of the last five years.

Q. 4. The following is the Balance Sheet of Alpha Limited as on 31st March, 2012 :

Liabilities	₹	₹	Assets	₹
Share Capital :			Land & Building	4,00,000
Equity Shares of			Machinery	4,50,000
₹ 100 each	10,00,000		Motorcar	25,000
Less Calls in			Furniture	25,000
Arrears (₹ 20	1,00,000	9,00,000	Investments (face value)	50,000
for final call)			Current Assets :	
Reserve and Surplus :			Stock	7,25,000
General Reserve	3,50,000		Sundry Debtors	2,00,000
Profit & Loss Account	2,50,000	6,00,000	Cash at Bank	1,05,000
Current Liabilities :			Miscellaneous	
Sundry Creditors		5,00,000	Expenditure	
			Preliminary Expenses	20,000
		20,00,000		**20,00,000**

Additional information is as under :

(1) Fixed Assets are worth-

Building ₹ 6,00,000

Machinery ₹ 5,20,000

(2) All investments are non-trading investments and are to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investments.

(3) For the purpose of valuation of shares, goodwill is to be valued on the basis of 3 years purchase of super profits based on average profit (after tax) of the last three years.

(4) Depreciation on appreciated value of Land and Building and Machinery is not to be considered for valuation of goodwill.

(5) Profits (after tax) are as follows :

31st March	₹
2010	3,80,000
2011	4,20,000
2012	5,00,000

Rate of income tax 50%

In similar business, return on capital employed is 20% (after tax).

(6) In 2009-2010 machinery (Book value ₹ 20,000) was sold for ₹ 20,000 but the proceeds were wrongly credited to profit and loss account. The mistake has not yet been rectified.

Depreciation has been charged on machinery @ 10% per annum on reducing balance method.

Find out the value of Goodwill.

Note : Trend in profit is to be ignored for the purpose of calculation of average profit.

Q. 5. From the information given on are requested to calculate the average capital employed.

Balance Sheet as at 31.03.04

(₹ in '000)

Liabilities	₹	Assets	₹
Equity share of ₹10/- each	9,000	Land & Building	5,120
8½% Preference Shares of		Plant & Machinery	10,870
₹10/- each	2,000	Furniture	2,700
General Reserve	1,050	Vehicles	200
Profit & Loss	4,970	Stock	700
18% Term Loan	4,500	Debtors	450
Cash credit	580	Cash & Bank	2,340
Creditors	200	Preliminary Exp.	20
Provision for tax (net of Adv. Tax)	100		
	22,400		**22,400**

The reserve and surplus position on 31.03.03

Profit and Loss	480
General Reserve	450

Q. 6. On the basis of the following information, calculate the value of goodwill of Gee Ltd. at three years' purchase of super profits, if any, earned by the company in the previous four completed accounting years.

Balance Sheet of Gee Ltd. as at 31st March, 2003

Liabilities	₹ in Lakhs	Assets	₹ in Lakhs
Share Capital :		Goodwill	310
Authorised	7,500	Land & Buildings	1,850
Issued and Subscribed 5 crore		Machinery	3,760
equity shares of ₹10 each fully paid	5,000	Furniture and Fixtures	1,015
Capital Reserve	260	Patents and Trade Marks	32
General Reserve	2,543	9% Non-trading	600
Surplus i.e. credit balance of		Investments Stock	873
Profit and Loss A/c (appropriation)	1,227	Debtors	614
Trade Creditors	568	Cash in hand and at Bank	546
Provision for Taxation (net)	22	Preliminary Expenses	20
	9,620		**9,620**

The profits before tax of the four years have been as follows :

Year ended 31st March	Profit before tax in lakhs of Rupees
2000	3,190
2001	2,500
2002	3,108
2003	2,900

The rate of income tax for the accounting year 1999-2000 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2003-2004 it will be 35%.

In the accounting year 1999-2000, the company earned an extraordinary income of ₹ 1 crore due to a special foreign contract. In August, 2000 there was an earthquake due to which the company lost property worth ₹ 50 lakhs and the insurance policy did not cover the loss due to earthquake or riots.

9% Non-trading investments appearing in the above mentioned Balance Sheet were purchased at par by the company on 1st April, 2001.

The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of ₹ 50 lakh every year beginning from the accounting year 2003-2004.

Q. 7. Given below the balance sheet of PPX Ltd. as on 31.3.2003.

Liabilities	'000 ₹	Assets	'000 ₹
Share Capital	50,00	Sundry Fixed Assets	72,00
Reserve	32,00	Non-trade Investments	12,00
Profit and Loss A/c	13,00	Stock	7,80
Sundry Creditors	8,20	Debtors	6,20
		Cash & Bank	5,20
	1,03,20		**1,03,20**

Other information :

(1) Profit before tax and other relevant information :

Year Ended 31st March	PBT ₹	Provision for Gratuity Required	Gratuity paid	Loss of Uninsured Stock
	'000 ₹	'000 ₹	'000 ₹	'000 ₹
1999	42,00	220	----	----
2000	39,00	230	167	62
2001	44,00	250	32	----
2002	42,00	260	142	----
2003	37,00	270	12	----

(2) Tax-rate 51%

(3) Non-trade investments fetched 11%.

(4) Expected Tax-rate 45%.

(5) The company wants to switch over towards maintaining gratuity provision on actuarial calculation rather than accounting on payment basis.

(6) Normal rate of return may be taken as 16%

Find out value of goodwill it may be assumed that the super profit, if any, is maintainable for 5 years 20% should be the appropriate discount factor.

Q. 8. A company desirous of selling its business to another company has earned an average profit in past ₹ 1,50,000 per annum. It is considered that such average profit fairly represents the profit likely to be earned in the future expect that:

a) Directors fees ₹ 10,000 charged against such profit will not be payable by the purchasing company whose existing board can cope with additional work without additional fees.

b) Rent at ₹ 20,000 p.a. which has been paid by the existing company will not be charged in the future.

c) Expansion plan implemented in the last year will result in extra expenses ₹ 10,000 p.a. and extra income ₹ 15,000 p.a.

The value of the net tangible assets of the existing company at the proposed date of sale was ₹19,00,000 and it was considered that reasonable return on capital invested, for the type of company was 8%. Calculate the value of goodwill at 3 years purchase of super profits.

Q. 9. The average net profit was (before tax) ₹ 2,07,000. It included investment income ₹ 2,000. The cost (also present value) of investments was ₹ 50,000. Expenses amounting to ₹ 3,000 p.a. are likely to be discontinued in future. 50 paise in rupee may be taken as average annual taxation. 6% represented a fair commercial return. The average capital employed was ₹ 13,50,000 but upon valuation obtained, the actual capital was valued at ₹ 14,50,000.

a) Assuming seven years purchase of super profits what is the value of goodwill?

b) What will be the value of goodwill under capitalization method?

Q. 10. The balance sheet of Moon Ltd. discloses the following financial position as on 31st December, 1983.

Liabilities	₹	Assets	₹
500, 8% pref. Shares of	50,000	Land and Building	3,50,000
₹ 100 each		Plant and Machinery	4,00,000
1,500 Equity shares of ₹ 100 each	1,50,000	Stock	1,50,000
		Debtors	2,00,000
General Reserve	10,000	Cash at Bank	50,000
Profit and Loss A/c	40,000		
7% Mortgage Debenture	5,00,000		
Trade Creditors	4,00,000		
	11,50,000		**11,50,000**

You are required to value goodwill of Moon Ltd., for which the following information is supplied:

1) The present market value of Plant and Machinery is ₹ 4,70,000 and Land and Building is ₹ 4,00,000 respectively.

2) The debtors are subject to a reserve for doubtful debts at 10%.

3) Given below are figures of profit and sales, for five years from 1979 to 1983 and the figures of profits are arrived at before adjustments of tax @ 40% but after charging debenture interest and depreciation.

Year	Profits	Sales
1979	1,10,000	11,00,000
1980	1,25,000	12,00,000
1981	1,35,000	13,50,000
1982	1,50,000	16,00,000
1983	1,80,000	17,50,000

4) The reasonable return on capital invested in the same class of business done by Moon Ltd. is 8%.

5) It may be assumed that the company will be able to maintain its profit in the next five years on the same level as in the past. Use super profit method. Take weighted average method.

Q. 11. Following is the Balance sheet of A limited as on 31st March, 1980.

Balance Sheet

Liabilities	₹	Assets		₹
Share capital		Goodwill		1,25,000
5,000 shares of ' 100 each	5,00,000	Land and Building	1,80,000	
Reserve fund	1,50,000	Less: Dep.	36,000	1,44,000
Workmen compensation fund	25,000	Plant and Machinery		
Workmen profit sharing fund	45,000	(at cost)	2,40,000	
Profit and loss account	1,50,000	Less: Dep.	40,000	2,00,000
Creditors	2,30,000	Investment (To provide		
Other liabilities	1,00,000	replacement of P & M)	1,00,000	
		Book debts	3,60,000	
		Less: R.B.D.	30,000	3,30,000
		Stock		2,00,000
		Cash at bank		75,000
		Preliminary expenses		26,000
	12,00,000			**12,00,000**

Further Information:

1) A Ltd. had been carrying on business for, the past several years . The company is to be taken over by another company and for this purpose you are required to value goodwill by "capitalization of maintainable profits method". For this purpose following additional information is available.

a) The profit earned by the company for the past three years were as under:

Year ended 31st March, 1978 ₹ 3,10,000

Year ended 31st March, 1979 ₹ 2,73,000

Year ended 31st March, 1980 ₹ 2,90,000

The profits given are profits before tax, which was 50% throughout.

b) The new company expect to carry on business with its own board of directors, without any addition. The director's fees paid by A Ltd., to its directors amounted to ₹ 9,000 per year, no more payable.

c) The new company expects a large increase in volume of business and therefore, will have to take an additional office for which it will have to pay extra rent of ₹ 12,000 per year.

d) As on 31st March, 1980. Land and Building were worth ₹ 3,00,000 whereas Plant and Machinery were worth only ₹ 1,80,000. There is sufficient provision for doubtful debts. There is no fluctuation in the value of investments and stock.

e) Liability under workmen compensation fund was only ₹ 5,000.

f) The expected rate of return on similar business may be taken at 12%. You are required to value goodwill according to above instructions. All your workings should from part of your answer. Take average capital employed, the same as closing employed for your calculations.

Q. 12. From the following information supplied to you, ascertain the value of goodwill of ANAMIKA LTD. which is carrying business as retail trade under the capitalization of profits method.

Balance Sheet as on March 31, 1991

Liabilities	**₹**	**Assets**	**₹**
Paid up capital:		Goodwill at cost	50,000
5,000 equity shares of ₹	5,00,000	Land and Building at cost	2,20,000
100 each fully paid		Plant and Machinery at cost	2,00,000
P&L appropriation A/c	1,13,300	Stock in trade	3,00,000
		Book debt	
Bank overdraft	1,16,700	Less provisions for bad debts	1,80,000
Prov. For taxation	39,000		
Sundry creditors	1,81,000		
	9,50,000		**9,50,000**

The company commenced operations in 1985 with a paid up capital of ₹5,00,000. Profits for recent years (after taxation) have been as follows:

Year ending March, 31	**₹**
1987	40,000 (loss)
1988	88,000
1989	1,03,000
1990	1,16,000
1991	1,30,000

1) The loss in 1987 occurred due to prolonged strike.
2) The income tax paid so far has been at the average rate of 40%, but it is likely to be 50% now onwards.
3) Dividends were distributed at the rate of 10% at the end of the year ending March 31, 1991.
4) The market price of shares is ruling at ₹ 125 at the end of the year ending March, 31, 1991.
5) Profit till 1991 have been ascertained after debating ₹ 40,000 as remuneration to the managing director. The government has approved a remuneration of ' 60,000 with effect from April 1, 1991.
6) The company has been able to secure a contract for supply of materials at advantageous prices. The advantage has been valued at ₹ 40,000 p.a. for the next five years .

Q. 13. **Balance Sheet of X Ltd.**

Liabilities	in lakhs	Assets	in lakhs
Share Capital	80	Fixed Assets	1,80
P & L A/c	20	Inventory	40
13% Debentures	1,20	Trade receivables	20
Trade payables	40	Cash & Bank	20
	2,60		**2,60**

Suppose normal return on Shareholders' fund is 20% and normal return on long term fund is 18%.

Future Maintainable Profit (before interest) of X Ltd. is 38.4 lakhs.

Calculate Goodwill by Shareholders fund approach and Long term funds approach.

Also determine the Leverage Effect on Goodwill.

Q. 14. Find out Leverage effect on Goodwill in the following case :

(i)	Current cost of capital employed	10,40,000
(ii)	Profit earned after current cost adjustments	1,72,000
(iii)	10 % long term loan	4,50,000
(iv)	Normal rate of return :	
	On equity capital employed	15.6 %
	On long term capitla employed	13.5%

CHAPTER - 11 CONSOLIDATED FINANCIAL STATEMENT

Objective : The objective of this chapter is to provide guideline for the preparation and presentation of Consolidated Financial Statement (CFS). CFS means financial statement of a parent (i.e. holding co.) and its subsidiaries as a single economic entity. CFS includes the following :

a) Balance Sheet
b) Profit and Loss Account
c) Notes to accounts
d) Cash Flow Statement

Important Terms :

1. Control : It means –

a) Ownership, directly or indirectly through subsidiaries, of more than one half of the voting power of an enterprise. Or
b) Control of the composition of the board of directors or other governing body.
   - Subsidiary : It is an enterprise that is controlled by another enterprise (known as parent)
   - Parent : It is an enterprise that has one or more subsidiaries.
   - Group : A group is set of parent and all its subsidiaries.
   - Consolidated Financial Statement : Consolidated Financial Statements are the financial statements of a group presented as those of a single enterprise.
   - Equity : It is the residual interest in the assets of the enterprise after deducting all its liabilities.
   - Minority Interest : It is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, by the parent.

2. Consolidation Procedure :

a) In preparing CFS, the financial statement of the parent and its subsidiaries should be combined / added on line by line basis by adding the like items of assets, liabilities, income and expenses.
b) The cost of investment of parent in each subsidiary should be cancelled / eliminated with parent's portion of equity on each subsidiary on the date on which the investment was acquired in each subsidiary.
c) If cost of investment in a subsidiary exceeds the parent's portion of above equity on the date of consolidation, the excess is debited in Goodwill and should be shown as an asset in the CFS.
d) If cost of investment in a subsidiary is less than the parent's portion of above equity on the date of consolidation, the difference is credited to Capital Reserve account and should be shown in the CFS under the head Reserve and Surplus.
e) Minority Interest should be calculated and shown in the CFS
f) Intra group balances and intra group transactions and resulted unrealized profits should be eliminated in full.

Accounting for Investment in Parent's Separate Financial Statement : In a parent's separate financial statement, investment in subsidiaries should be accounted for in accordance with Accounting Standard – 13.

3. Sale of goods :

Downstream Transaction :

When goods are transferred to subsidiary at cost + profit, profit is included in stock of subsidiary company.

Upstream Transaction :

Where goods are transferred to holding company at cost + profit, profit margin is included in stock of holding company.

Therefore, profit included in stock has to be eliminated.

4. Treatment of revaluation & depreciation when the same is not accounted in the books of subsidiary

Revaluation (Pre)

- Gain
  - H (Invt Cr. Side)
  - M.I. (+)
- Loss
  - H (Invt Dr. Side)
  - M.I. (-)

Depreciation (Post)

- Additional → (-) from Post Profit
- Savings → (+) to Post Profit

Remarks: Final Post P/L should be distributed between Holding co. & Minority Interest.

5. Preliminary Expenses :

Whenever, Preliminary expenses are existing on date of acquisition of shares by holding company then such preliminary expenses would be treated as pre loss. It is quite possible that such preliminary expenses are written off in future. However, since such expenses are treated as pre loss, we should always consider future profit without adjusting preliminary expenses written off.

6. Bonus Shares :

Issue of bonus shares by subsidiary company does not change the controlling stake of holding company & therefore date of bonus issue is irrelevant.

PART B : CLASSWORK SECTION

Q. 1. The balance sheet of Big Limited and Small Limited as at 31st March, 2012 were as under:

	Big Ltd.	Small Ltd.		Big Ltd.	Small Ltd.
	₹	₹		₹	₹
Equity Capital	9,00,000	3,00,000	Fixed Assets	9,00,000	4,00,000
(Shares of ₹ 10 each)			Investments	6,00,000	--
General Reserve	5,00,000	30,000	Sundry Debtors	1,60,000	90,000
Profit & Loss A/c.	6,00,000	2,00,000	Inventory	2,10,000	1,20,000
Sundry Creditors	1,00,000	1,70,000	Cash & Bank	2,30,000	90,000
	21,00,000	**7,00,000**		**21,00,000**	**7,00,000**

Big Ltd. has acquired 75 per cent of Small Ltd.'s shares at ₹ 6,00,000 on 1st July, 2011. Small Ltd. had an opening balance of ₹ 1,00,000 in Profit and Loss Account from which it paid dividend for 2010-2011 at 20 per cent on 30th September, 2011. The dividend received by Big Ltd. is included in its Profit & Loss Account.

Inventory of Big Ltd. included ₹ 20,000 out of purchases of ₹ 50,000 made from Small Ltd. in January 2012. Credit period is 100 days. Small Ltd. had sold these items at a margin of 25 per cent on cost. There had been no change in the General Reserve Account of Small Ltd. during 2011-2012.

Prepare a consolidated balance sheet as at 31st March, 2012.

Q. 2. A Ltd. acquired 1,600 ordinary shares of ₹ 100 each of B Ltd. on 30th September, 2011. On 31st March, 2012 the Balance Sheets of the two companies were as given below :

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
	₹	₹		₹	₹
Share Capital			Land & Buildings	1,50,000	1,80,000
(of ₹ 100 each fully paid)	5,00,000	2,00,000	Plant & Machinery	2,40,000	1,35,000
Reserves	2,40,000	1,00,000	Investment in B Ltd.		
Profit & Loss A/c	57,200	82,000	at cost	3,40,000	—
Bank Overdraft	80,000	—	Stock	1,20,000	36,400
Bills Payable	—	8,400	Sundry Debtors	44,000	40,000
Creditors	47,100	9,000	Bills Receivable	15,800	—
			Cash	14,500	8,000
	9,24,300	**3,99,400**		**9,24,300**	**3,99,400**

The Profit & Loss Account of B Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2011 out of which a dividend of 10% was paid on 31st October, 2011 ; A Ltd. has credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st April, 2011 was considered as worth ₹ 1,80,000 on 30th September, 2011 ; this figure is to be considered while consolidating the Balance Sheets.

Prepare consolidated Balance Sheet as on 31st March, 2012.

Q. 3. The following are the Balance Sheets of H Ltd. and S Ltd. as on 31st March, 2012 :

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	₹	₹		₹	₹
Share Capital			Fixed Assets	4,80,000	2,50,000
Shares of ₹ 100/- each	10,00,000	5,00,000	Investments		
Reserve & Surplus			in S Ltd.	5,00,000	--
General Reserve	1,00,000	1,50,000	Current Assets	7,20,000	7,50,000
Profit & Loss A/c	1,60,000	1,50,000			
Current Liabilities	4,40,000	2,00,000			
	17,00,000	**10,00,000**		**17,00,000**	**10,00,000**

The following further information is furnished :

(1) H Limited acquired 3000 shares in S Limited on 1.7.2011. The Reserves and Surplus position of S Limited as on 1.4.2011 was as under :

(a) General Reserve ₹ 2,50,000

(b) P & L A/c. Bal. ₹ 1,20,000

(2) On 1.10.2011 S Limited issued 1 share for every 4 shares held as Bonus Share at a face value of ₹ 100 per share. No entry has been made in the books of H Limited for the receipt of these bonus shares.

(3) On 30.9.2011, S Limited declared a dividend out of its pre-acquisition profits of 25% on its then share capital. H Limited credited the dividend to its Profit and Loss Account.

(4) H Limited owed S Limited ₹ 50,000 for purchase of stock from S Limited. The entire stock is held by H Limited on 31.3.2012. S Limited made a profit of 25% on cost.

(5) H Limited transferred a machinery to S Limited for ₹ 1,00,000. The book value of the machinery to H Ltd. was ₹ 80,000.

Prepare a consolidated Balance Sheet as on 31.3.2012.

Q. 4. On 31st March, 1996, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The Balance Sheet of Q Ltd. on that date was as under :

Liabilities	₹	Assets	₹
1,50,000 equity shares of ₹ 10		Fixed Assets	10,50,000
each fully paid	15,00,000	Current Assets	6,45,000
Pre-incorporation profits	30,000		
Profit and Loss Account	60,000		
Creditors	1,05,000		
	16,95,000		**16,95,000**

On 31st March, 2002 the Balance Sheets of two companies were as follows :

Liabilities	P Ltd.	Q Ltd.	Assets	P Ltd.	Q Ltd.
	₹	₹		₹	₹
Equity Shares of ₹10 each		1,05,000	Fixed Assets	79,20,000	23,10,000
fully paid.			equity Shares in Q Ltd.		
(before bonus issue)	45,00,000	15,00,000	at cost	12,00,000	---
Securities Premium	9,00,000	----	Current Assets	44,10,000	17,55,000
Pre-incorporation Profits	---	30,000			
General Reserve	60,00,000	19,05,000			
Profit & Loss A/c	15,75,000	4,20,000			
Creditors	5,55,000	2,10,000			
	1,35,30,000	**40,65,000**		**1,35,30,000**	**40,65,000**

Directors of Q Ltd. made bonus issue on 31.3.2002 in the ratio of one equity share of ₹10 each fully paid for every two equity shares held on that date.

Calculate as on 31st March, 2002

(i) Cost of Control / Capital Reserve;

(ii) Minority Interest;

(iii) Consolidated Profit and Loss Account in each of the following cases :

(a) Before issue of bonus shares.

(b) Immediately after issue of bonus shares.

It may be assumed that bonus shares were issued out of post-acquisition profits by using General Reserve.

Prepare a Consolidated Balance Sheet after the bonus issue.

Q. 5. **Balance sheets as on 31st March, 2010**

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital			Fixed Assets	3,00,000	1,00,000
Equity Shares of			60% shares in		
Rs. 10 each fully paid	5,00,000	2,00,000	S Ltd. at cost	1,62,400	--
General Reserve	1,00,000	50,000	Current Assets	2,77,600	2,39,000
Profit and loss Account	60,000	35,000	Preliminary		
Expenses	--	6,000			
creditors	80,000	60,000			
	7,40,000	**3,45,000**		**7,40,000**	**3,45,000**

H Ltd. acquired the share on 1st April 2009 on which date General Reserve and profit and loss Account of S Ltd. showed balances of Rs. 40,000 and Rs. 8,000 respectively. No part of preliminary expenses was written off during the year ending 31st March, 2010. prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2010.

Q. 6. From the following balance sheet of H. Ltd. and its subsidiary S Ltd. drawn up at 31.12.2010. Prepare a consolidated Balance sheet as on that date having regard to the following.

(i) Reserve and profit and loss account (cr.) of S. Ltd. stood at ₹ 50,000 and 30,000 respectively, on the date of acquisition of its 80% shares. Held by H Ltd. as on 1/01/2010 and

(ii) Machinery (Book value ₹ 2,00,000) and furniture (Book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively for the purpose of fixing the price of its shares there was no purchase or sale of these assets since the date of acquisition.

Balance sheets of H Ltd. S Ltd. as at 31st December, 2010.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital					
Shares of	10,00,000	2,00,000	Machinery	6,00,000	1,80,000
Rs. 100 each					
Reserves	4,00,000	1,50,000	Furniture	1,00,000	34,000
Profit & loss A/c	2,00,000	50,000	Other Assets (current)	8,80,000	2,86,000
Creditors	3,00,000	1,00,000	Shares in S Ltd. 1600		
			at Rs. 200 each	3,20,000	
	19,00,000	**5,00,000**		**19,00,000**	**5,00,000**

Q. 7. The following are summarized Balance Sheets of 'X' Ltd. and 'Y' Ltd. as on 31st December 2010

	X Ltd.	Y Ltd		X Ltd.	Y Ltd.
Paid up capital in			Freehold premises	4,50,000	1,20,000
Shares of Rs. 100	10,00,000	3,00,000	Plant &	3,50,000	1,60,000
each			Machinery		
General reserve	4,00,000	1,25,000	Furniture	80,000	30,000
Profit and Loss A/c	3,00,000	1,75,000	Debtors	3,00,000	1,70,000
Sundry Creditors	1,00,000	70,000	Stock investment in	3,20,000	1,60,000
			Shares in Y Ltd.	2,60,000	_
			at cost		
			Cash balance	40,000	30,000
	18,00,000	**6,70,000**		**18,00,000**	**6,70,000**

You are required to prepare a consolidated Balance Sheet as on 31st December 2010. Showing in detail necessary adjustments and taking into consideration the following information

a) 'X' Ltd. acquired the shares of Y Ltd. on 1.1.2010 when the balance on their profit and Loss account and general reserve were ₹ 75000 and ₹ 80000 respectively.

b) Stock of ₹ 1,60,000 held by 'Y' Ltd. consists of ₹ 60,000 goods purchased from 'X' Ltd. Who has charges profit at 25% on cost.

c) Included in Debtors of X Ltd. ₹ 30,000 due from Y Ltd.

Q. 8. H Ltd. acquired 8,000 shares of Rs. 10 each in K Ltd. on 31st March 2011. The summarized Balance Sheets of the two companies as on that date were as follows :

Particulars		H Ltd. Rs.	K Ltd. Rs.
Liabilities :			
Share Capital :			
30,000 Shares of Rs. 10 eAach	---------	3,00,000	
10,000 Shares of Rs. 10 each	---------	-	1,00,000
Capital Reserve	---------	-	52,000
General Reserve	---------	25,000	5,000
Profit & Loss Account	----------	38,200	18,000
Loan from H Ltd.	----------	2,100	-
Bills payable (including Rs.		-	1,700
1,000 to H Ltd.)	---------		
Creditors	---------	17,900	5,000
		3,83,200	**1,81,700**
Assets :			
Fixed Assets		1,50,000	1,44,700
Investments in K Ltd. at cost	---------	1,70,000	-
Stock-in-hand	---------	40,000	20,000
Loan to H Ltd.	---------	-	2,000
Bills Receivable (including Rs.		1,200	-
700 from K Ltd.)	---------		
Debtors	---------	20,000	10,000
Bank	---------	2,000	5,000
		3,83,200	**1,81,700**

You are given the following information :

1) K Ltd. made a bonus issue on 31st March 2011 of one share for every two shares held, reducing the capital reserve equivalently, but the transaction is not shown in the above Balance Sheets.

2) Interest receivable (Rs. 100) in respect of the loan due by H Ltd. to K Ltd. has not been credited in the account of K Ltd.

3) The directors decided that the fixed assets of K Ltd. were overvalued and should be written down by Rs. 5,000.

Prepare the Consolidated Balance Sheet as at 31st March 2011, showing your workings.

Q. 9. From the following Balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2011, and the additional information provided there after prepare consolidated Balance sheet on 31.3.11

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital (Rs.10)	25,00,000	5,00,000	Land	5,00,000	1,00,000
Reserve	2,00,000	-	Building	10,00,000	3,00,000
Profit & Loss A/c	3,00,000	4,00,000	Machinery	6,00,000	4,50,000
Current Liabilities	1,60,000	90,000	Investment	7,50,000	12,000
			Current Assets	3,10,000	1,28,000
	31,60,000	**9,90,000**		**31,60,000**	**9,90,000**

Additional Information:

1. H. Ltd. acquired 40,000 Equity shares of S Ltd. for Rs. 7,00,000 on 1 July 2010.
2. Land of S Ltd. was revolved as on 30.6.2010 Rs. 5,00,000
3. S Ltd. declared & paid interim dividend @ 20% p.a. for 6 month ended on 30th September 2010. Dividend received by H Ltd., credited to profit a loss A/c
4. Profit & Loss A/c of S Ltd. as on 1st April 2010 showed Dr. Balance amounting Rs. 4,00,000

Q. 10. Following are the Balance Sheets of H. Ltd. and S. Ltd. as at 31st March 2011

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital share of Rs.10 each	5,00,000	2,00,000	Goodwill	40,000	30,000
General Reserve as on 1.4.03	1,00,000	60,000	Land & Building	2,00,000	1,30,000
Profit & Loss A/c	1,40,000	90,000	Plant &Machinery	1,60,000	90,000
Bills Payable	-	40,000	Stock in Trade	1,00,000	90,000
Creditor s	80,000	50,000	Shares in S. Ltd. shares (atcost)	2,40,000	1500
			Cash at Bank	60,000	25,000
	8,20,000	**4,40,000**		**8,20,000**	**4,40,000**

The Profit and Loss Account of S Ltd. showed a credit balance of ₹ 50,000 on 1st April 2010. A dividend of 15% was paid in December 2010 for the year 2009-10. This dividend was credited to profit and loss account by H Ltd.

H Ltd. acquired the shares in S. Ltd. on 1st October, 2010.

The Bills Payable of S Ltd. were all issued in favour of H Ltd. which company got the bills discounted.

Included in the Creditors of S Ltd. is ₹ 20,000 for goods supplied by H Ltd. included in the stock of S Ltd. are goods to the value of ₹ 8,000 which were supplied by H. Ltd. at a profit of 33%% on cost.

In arriving at the value of S. Ltd. shares, the plant and machinery which then stood in the books at ₹ 1,00,000 on 1.4.2010 was revalued at ₹ 1,50,000. The new value was not incorporated in the books. No changes in these have been made since then in books of S. Ltd.

Prepare the consolidated balance sheet as on that date.

Q. 11. Following are the balance sheets of the two companies H. Ltd. and S. Ltd. as at 31.3.2012.

	H Ltd.	S. Ltd.
	₹	₹
Share of ₹ 100/- each	10,00,000	5,00,000
Profit & Loss A/c.	3,00,000	2,00,000
Creditors	1,00,000	1,00,000
	14,00,000	**8,00,000**
Sundry Assets	9,00,000	6,90,000
Investments :		
4000 shares in S Ltd.	5,00,000	----
1000 shares in H Ltd.	--	1,10,000
	14,00,000	**8,00,000**

H Ltd. acquired the shares in S Ltd. on 1st April, 2011, when profit and loss account balance in S Ltd. stood at ₹ 1,20,000 and in H Ltd. at 1,80,000. S Ltd. had acquired shares in H Ltd. on 1st April, 2010, when H Ltd. had balance of ₹ 1,00,000 and S Ltd. had balance of ₹ 50,000 in the profit and loss account.

Prepare a consolidated balance sheet of two companies as on 31.3.2012.

Q. 12. H. Ltd. Acquired 60% of share capital of S Ltd. On 1st April 2005. Following are the cash flow statements of H Ltd. And S Ltd. For the year ended 31st March 2011 :-

Particulars	**H Ltd.**		**S Ltd.**	
	₹	₹	₹	₹
Cash flows from operating activities				
Net profit before tax	90,000		60,000	
Adjustments for :				
Interest expense	5,000		2,000	
Dividend income	[6,000]			
Depreciation and amortization	26,000		17,000	
Operating profit before working capital changes	1,15,000		79,000	
Increase in Sundry debtors	7,000		8,000	
Decrease in inventories	[3,000]		[3,000]	
Decrease in sundry creditors	6,000		7,000	
Cash generated from operations	1,25,000		91,000	
Income taxes paid	[15,000]		[10,000]	
		1,10,000		81,000
Net cash from operating activities				
Cash flows from investing activities				
Purchase of fixes assets	[56,000]		[40,000]	
Investment in debt securities	[30,000]		[20,000]	
Dividend received	6,000			
Net cash used in investing activities				
		80,000		60,000

Cash flows from financing activities				
Interest paid	[4,000]		[3,000]	
Interim Dividend paid	[12,000]		[10,000]	
Net cash used in financing activities		[16,000]		[13,000]
Net increase in cash and cash equivalents		14,000		8,000
Cash and cash equivalents at the beginning of the year		5,000		4,000
Cash and cash equivalents at the end of the year		19,000		12,000

During the year , S Ltd. Sold to H Ltd. Goods costing Rs. 6,000 at a profit cost plus 30%. As at the year end , Rs.3,000 was still outstanding for payment on this account. H Ltd. Managed to sell 50% of such goods to outsiders before the year end. During the year ,S Ltd. Paid an interim dividend of Rs. 10,000 to its shareholders. A final dividend of Rs.20,000 has been recommended by are debtors of H Ltd.

Prepare consolidated cash flow statement.

Q. 13. The following are the Profit & Loss A/c of H. Ltd. & S. Ltd. for the year ended March 31st, 2011

Particulars	**H. Ltd. ₹**	**S. Ltd. ₹**		**H. Ltd. ₹**	**S. Ltd. ₹**
To Opening Stock	2,00,000	1,00,000	By Sales	19,80,000	14,00,000
To Purchases	12,00,000	7,50,000	By Closing Stock	2,10,000	60,000
To Carriage	20,000	10,000			
To Wages	2,10,000	80,000			
To Gross Profit c/d	5,60,000	5,20,000			
	21,90,000			**21,90,000**	**14,60,000**
To Salaries	95,000	45,000	By Gross Profit b/d	5,60,00	5,20,000
To Rent	40,000	25,000	By Commission	1,00,000	
To Commission	-	50,000	By Debenture Interest S Ltd.	10,000	
To Sundry Expenses	65,000	25,000	By Rent	40,000	
To Debentures Interest	-	25,000			
To Provision for Taxation	1,90,000	1,10,000			
To Net Profit c/d	3,20,000	2,40,000			
	7,10,000	5,20,000		7,10,000	5,20,000
To Preference Dividend	40,000				
By Balance B/d	1,00,000	40,000			
To Proposed Dividend	90,000	60,000	By Net Profit B/fd	3,20,000	2,40,000
To Corporate Dividend Tax	15,021	16,690			
To Balance carried to Balance sheet	3,14,979	1,63,310			
	4,20,000	**2,80,000**		**4,20,000**	**2,80,000**

You are given following additional information :

1. H. Ltd. acquired 3000 Equity shares in S. Ltd. on 1st October 2010, of 4000 Equity shares of S. Ltd. However Debentures were acquired on 1st April 2009.
2. During the year H. Ltd. sold goods to S Ltd.costing ₹ 60,000 for ₹ 80,000. One fourth of the goods remained unsold on March 31st 2011. It is included in closing stock at cost to S. Ltd.
3. Commission, Rent credited to profit & Loss A/c of H. Ltd. include ₹ 40,000, ₹ 10,000 received from S. Ltd.
4. Prepare a consolidated profit and Loss A/c for the year ended March 31st 2011.