मेहनत अगर आदत बन जाए तो, कामयाबी मुकद्दर बन जाती है!

CA INTER

ADVANCED ACCOUNTING

THEORY QUESTIONS FROM

MAY 18 TO SEPT. 24 EXAMS

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INTRODUCTION OF AS, IND AS, IAS AND IFRS

1. Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Discuss and explain the benefits of Accounting Standards. **[(5 Marks – Nov 18 (Account)]**
Solution: Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.
The following are the benefits of Accounting Standards:
(i) **Standardization of alternative accounting treatments:** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.
(ii) **Requirements for additional disclosures:** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.
(iii) **Comparability of financial statements:** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

2. List the Criteria for classification of non-corporate entities as level I Entities for the purpose of application of Accounting Standards as per the Institute of Chartered Accountants of India. **[(5 Marks – Jan 21 (Account)]**
Solution: Criteria for classification of non-corporate entities as level 1 entities for purpose of application of Accounting Standards decided by the Institute of Chartered Accountants of India is given below:
Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:
(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
(v) Holding and subsidiary entities of any one of the above.

3. List down the applicable criteria under the companies (Accounting Standards) Rule, 2021, to classify a company as Small and Medium Sized Company (SMC). **[(5 Marks – Nov 23 (Account)]**
Solution: Criteria for classification of Companies under the Companies (Accounting Standards) Rules, 2021 to classify a company as Small and Medium-Sized Company (SMC):
"Small and Medium Sized Company" (SMC) means, a company-
(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
(ii) which is not a bank, financial institution or an insurance company;
(iii) whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;
(iv) which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company

FRAMEWORK FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

4. One of the characteristic of the financial statement is neutrality. Do you agree with this statement? Explain in brief. **[(5 Marks – Nov 18 (Account)]**
Solution: Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias.
Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion based on the business results. Information contained in the financial statements must be free from bias. It should reflect a

balanced view of the financial position of the company without attempting to present them in biased manner. Financial statements cannot be prepared with the purpose to influence certain division, i.e. they must be neutral.

5. Briefly explain the elements of financial statements. **[(5 Marks – May 18 (Account)]**
Solution: Items of financial statements can be classified in five broad groups depending on their economic characteristics:

Asset:	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
Liability:	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity:	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain:	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss:	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

6. What are the qualitative characteristics of the Financial Statements which improve the usefulness of the information furnished therein? **[(5 Marks – Nov 20 (Account)]**
Solution: The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The framework for Preparation and Presentation of Financial Statements suggests that the financial statements should maintain the following four qualitative characteristics to improve the usefulness of the information furnished therein.
(1) Understandability: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities and accounting.
(2) Relevance: The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its misstatement (i.e., omission or erroneous statement) can influence economic decisions of a user.
(3) Reliability: To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless transactions and events reported are faithfully represented. The reporting of transactions and events should be neutral, i.e. free from bias and be reported on the principle of 'substance over form'. The information in financial statements must be complete. Prudence should be exercised in reporting uncertain outcome of transactions or events.
(4) Comparability: Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

7. What is meant by 'Measurement'? What are the bases of measurement of Elements of Financial Statements? Explain the brief. **[5 Marks – Dec 21 (Account)]**
Solution: Measurement is the process of determining money value at which an element can be recognized in the balance sheet or statement of profit and loss. The Framework for Preparation and Presentation of Financial statements recognizes four alternative measurement bases for the purpose of determining the value at which an element can be recognized in the balance sheet or statement of profit and loss.
These bases are: (i) Historical Cost; (ii) Current cost (iii) Realizable (Settlement) Value and (iv) Present Value.
A brief explanation of each measurement basis is as follows:
(1) **Historical Cost:** Historical cost means acquisition price. According to this, assets are recorded at an amount of cash or cash equivalent paid or the fair value of the asset at the time of acquisition. Liabilities are generally recorded at the amount of proceeds received in exchange for the obligation.
(2) **Current Cost:** Current cost gives an alternative measurement basis. Assets are carried out at the amount of cash or cash equivalent that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
(3) **Realizable (Settlement) Value:** As per realizable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal. Liabilities are

carried at their settlement values, i.e. the undiscounted amount of cash or cash equivalents paid to satisfy the liabilities in the normal course of business.

(4) **Present Value:** Under present value convention, assets are carried at present value of future net cash flows generated by the concerned assets in the normal course of business. Liabilities under this convention are carried at present value of future net cash flows that are expected to be required to settle the liability in the normal course of business.

AS 1: DISCLOSURE OF ACCOUNTING POLICIES

8. What do you mean by 'Accrual' in reference to AS-1? Also, specify any three reasons for 'Accrual Basis of Accounting'. **[(5 Marks – May 19 (Adv. Account)]**

Solution: The term "Accrual" has been explained in the AS 1 on Disclosure of Accounting Policies, as "Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate"

Reasons for Accrual Basis of Accounting

(1) Accrual basis of accounting, attempts to record the financial effects of the transactions, events, and circumstances of an enterprises in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.

(2) Receipts and payments of the period will not coincide with the buying producing or selling events and other economic events that affect entity performance.

(3) The goal of Accrual basis of accounting is to follow the matching concept of income and expenditure so that reported net income measures an enterprise's performance during a period instead of merely listing its cash receipts and payments.

(4) Accrual basis of accounting recognizes assets, liabilities or components of revenues and expenses for amounts received or paid in cash in past, and amounts expected to be received or paid in cash in the future.

(5) Important point of difference between accrual and accounting based on cash receipts and outlay is in timing of recognition of revenues, expenses, gains and losses.

9. State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(2) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(3) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(4) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated. **[(5 Marks – May 22 (Account)]**

Solution:

(1) **False:** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(2) **False:** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(3) **True:** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(4) **False:** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

AS 2: VALUATION OF INVENTORIES

10. Explain the treatment of normal loss and abnormal loss. [In the context of AS-2 (Revised)] **[(2 Marks – May 19 (Account)]**

Solution: As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

11. "In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred."
Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.' **[4 Marks – Sept. 24 (Account)]**
Solution: As per AS 2 'Valuation of Inventories', certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are:
(a) abnormal amount of wasted materials, labour, or other production costs;
(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;
(c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
(d) selling and distribution costs.

AS 5: NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

12. The accountant of Beryl Limited has asked you to identify the following items as – Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity:
(i) Non-provision for salary already due in earlier year.
(ii) Attachment of the property of the enterprise.
(iii) Introduction of new pension scheme for employees.
(iv) Change in Reserve for obsolete inventory.
(v) Settlement of litigation case.
(vi) Actual Bad debts exceeds the provision.
(vii) Legislative changes having long term retrospective application.
(viii) Capitalisation of working capital loan interest.
(ix) Change from Cost Molde to Revaluation Model for measurement of carrying amount of PPE.
(x) Government sanctioned grant in current year for expenses incurred in previous accounting year.
[(5 Marks – Nov. 23 (Adv. Account)]

Solution:
(i) Prior Period item
(ii) Attachment of property of enterprise is an extraordinary item.
(iii) Introduction of new pension scheme for employes is not a change in accounting policy. It is an ordinary activity.
(iv) Change in provision for obsolete inventory is a change in accounting estimate.
(v) Litigation settlement is an ordinary activity but requires separate disclosure
(vi) Change in estimate
(vii) Ordinary activity requiring separate disclosure
(viii) Error* (* If it relates to the previous year then it can be considered as a prior period item.)
(ix) Change in Accounting policy.
(x) Ordinary activity requiring separate disclosure or extra ordinary item.

AS 9: REVENUE RECOGNITION

13. Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.
(1) Trade discount and volume rebate received.
(2) Where goods are sold to distributor or others for resale.
(3) Where seller concurrently agrees to repurchase the same goods at a later date.
(4) Insurance agency commission for rendering services.
(5) On 11-03-2019 cloths worth Rs 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request cloths were delivered on 12-04-2019.
[(5 Marks – Nov 19 (Adv. Account)]

Solution:
(1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.
(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.
(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.
(5) On 11.03.2019, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2019 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

14. Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.
(i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.
(ii) Instalment Sales.
(iii) Trade discounts and volume rebates.
(iv) Insurance agency commission for rendering services.
(v) Advertising commission. **[(5 Marks – Nov 22 (Adv. Account)]**

Solution:

(i) Delivery is delayed at buyer's request and buyer takes title and accepts billing : Revenue should be recognized notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made. However, the item must be on hand, identified and ready for delivery to the buyer at the time the sale is recognized rather than there being simply an intention to acquire or manufacture the goods in time for delivery.

(ii) Instalment sales: When the consideration is receivable in instalments, revenue attributable to the sales price exclusive of interest should be recognized at the date of sale. The interest element should be recognized as revenue, proportionately to the unpaid balance due to the seller.

(iii) Trade discounts and volume rebates: Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(iv) Insurance agency commissions for rendering services: Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(v) Advertising commission: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed.

AS 19: LEASES

15. What are the disclosures requirements for operating leases by the lessee as per AS-19?
[(5 Marks – May 22 (Adv. Account)]

Solution: As per AS 19, lessees are required to make following disclosures for operating leases:

(a) the total of future minimum lease payments under non-cancelable operating leases for each of the following periods:
  (i) not later than one year;
  (ii) later than one year and not later than five years;
  (iii) later than five years;
(b) the total of future minimum sublease payments expected to be received under non- cancelable subleases at the balance sheet date;
(c) lease payments recognised in the statement of profit and loss for the period, with separate amounts for minimum lease payments and contingent rents;
(d) sub-lease payments received (or receivable) recognised in the statement of profit and loss for the period;
(e) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
  (i) the basis on which contingent rent payments are determined;
  (ii) the existence and terms of renewal or purchase options and escalation clauses; and
  (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

Note: The Level II and Level III non-corporate entities (and SMCs) need not make disclosures required by (a), (b) and (e) above.

AS 22: ACCOUNTING FOR TAXES ON INCOME

16. How is Minimum Alternative Tax (MAT) to be presented in the financial statements?

[(5 Marks – May 18 (Adv. Account)]

Solution: MAT is treated as the current tax. The tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the profit and loss account in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, the said asset should be created by way of a credit to the profit and loss account and presented as a separate line item therein.

MAT credit should be presented under the head under the head 'Non-current Assets' sub head 'Long-term Loans and Advances' as per Schedule III to the Companies Act, 2013 considering that there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

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

17. Write short note on Timing difference and Permanent Difference as per AS 22. **[(5 Marks – May 19 (Account)]**

Solution: Matching of taxes against revenue for a period poses special problems arising from the fact that in number of cases, taxable income may be different from the accounting income. The divergence between taxable income may be different from the accounting income arises due to two main reasons: Firstly, there are differences between items of revenue and expenses as appearing in the statement of profit and loss and the items which are considered as revenue, expenses or deductions for tax purposes, known as Permanent Difference. Secondly, there are differences between the amount in respect of a particular item of revenue or expense as recognised in the statement of profit and loss and the corresponding amount which is recognised for the computation of taxable income, known as Timing Difference.

Permanent differences are the differences between taxable income and accounting income which arise in one accounting period and do not reverse subsequently. For example, an income exempt from tax or an expense that is not allowable as a deduction for tax purposes.

Timing differences are those differences between taxable income and accounting income which arise in one accounting period and are capable of reversal in one or more subsequent periods. e.g., Depreciation, Bonus, etc.

AS 24: DISCONTINUING OPERATIONS

18. Analyse the disclosure and presentation requirements of AS 24 for Discontinuing Operations (any five).

[(5 Marks – Nov. 23 / Nov. 18 (Adv. Account)]

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

(a) A description of the discontinuing operation(s).
(b) The business or geographical segment(s) in which it is reported as per AS 17.
(c) The date and nature of the initial disclosure event.
(d) The date or period in which the discontinuance is expected to be completed if known or determinable.
(e) The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.
(f) The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.
(g) The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto.
(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.

MANY ACCOUNTING STANDARDS

19. State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(1) As per the provisions of AS-5, extraordinary items should not be disclosed in the statement of profit and loss as a part of net profit or loss for the period.

(2) As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve.
(3) As per the provisions of AS-2, inventories should be valued at the lower of cost and selling price.
(4) As per the provisions of AS-13, a current investment is an investment, that by its nature, is readily realisable and is intended to be held for not more than six months from the date on which such investment is made.
(5) As per the provisions of AS-4, a contingency is a condition or situation, the ultimate outcome of which (gain or loss) will be known or determined only on the occurrence of one or more uncertain future events. **[(5 Marks – May 19 (Account)]**

Solution:

(1) **False:** The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.
(2) **True:** When grants in the nature of promoters' contribution becomes refundable, in part or in full to the government on non-fulfillment of some specified conditions, the relevant amount refundable to the government is reduced from the capital reserve.
(3) **False:** Inventories should be valued at the lower of cost and net realizable value (not selling price) as per AS 2.
(4) **False:** A current investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
(5) **False:** A contingency is a condition or situation, the ultimate outcome of which, gain or loss, will be known or determined only on the occurrence, or non-occurrence, of one or more uncertain future events.

CASH FLOW STATEMENT (AS – 3)

20. Classify the following activities as (i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.
(1) Cash receipts from Trade Receivables
(2) Marketable Securities
(3) Purchase of investment
(4) Proceeds from long term borrowings
(5) Wages and Salaries paid
(6) Bank overdraft
(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10) Underwriting commission paid **[(5 Marks – Nov 18 (Account)]**

Solution:

(a) Operating Activities: Items 1 and 5.
(b) Investing Activities: Items 3, 7 and 9
(c) Financing Activities: Items 4, 6, 8 and 10
(d) Cash Equivalent: 2

21. Ridgeway Limited, a Non-Financial company has the following activities:
(i) Dividend paid for the year.
(ii) TDS on interest income earned on investments made.
(iii) Loans and advances given to suppliers and interest earned from them.
(iv) Deposit with bank for a term of two years.
(v) Highly liquid Marketable Securities (without risk of change in value).
(vi) Investments made and dividends earned on them.
(vii) Insurance claims received against loss of stock or loss of profits.
(viii) Loans and advances given to subsidiaries and interest earned from them.
(ix) Issue of Bonus Shares.
(x) Term loan repaid.
You are required to classify the above activities in Cash Flow Statement as per 'AS-3'.
[(5 Marks – Nov 23(Account)]

Solution:

Particulars	**Activities**
(i) Dividend paid for the year	Financing
(ii) TDS on interest income earned on investments made	Investing
(iii) Loans and advances given to suppliers and interest earned from them	Operating

(iv) Deposit with bank for a term of two years	Investing
(v) Highly liquid Marketable Securities (without risk of change in value)	Cash Equivalent
(vi) Investments made and dividends earned on them	Investing
(vii) Insurance claims received against loss of stock or loss of profits	Operating
(viii) Loans and advances given to subsidiaries and interest earned from them	Investing
(ix) Issue of Bonus Shares	No Cash Inflow /outflow
(x) Term Loan repaid	Financing

AMALGAMATION OF COMPANIES (AS -14)

22. Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

[(5 Marks – May 19 (Adv. Account)]

Solution:

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are Wound up and a **new company** is formed to take over their business.	In this Case an **existing company** Takes Over the business of **one or More** existing companies.	In this case, **a newly formed company** Takes over the business of an **existing company**.
Minimum number of Companies involved	At least three companies are involved.	At Least two companies are involved.	Only two companies are involved.
Number of New resultant companies	Only one resultant company is formed. Two companies are wound up to form a **Single** resultant company.	**No** new resultant company is formed.	Only one resultant company is formed. Under this case a **Newly formed company** takes over the business of an existing company.
Objective	Amalgamation is done to cut competition & reap the economies in large scale.	Absorption Is done to cut competition & reap the economies in large scale.	External reconstruction is done to reorganize The financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to Take over the business of an existing company A Ltd.

23. List the conditions to be fulfilled as per AS-14 (Revised) for an amalgamation to be in the nature of merger.

[(5 Marks – Jan. 21 (Adv. Account)]

Solution: Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

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

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

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

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

FINAL ACCOUNTS AND SCHEDULE III DIVISION I

24. X Ltd. is a company engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss.
Comment whether the classification of the rent income made by the accountant is correct or not in light of Schedule III to the Companies Act, 2013. **[(5 Marks – Nov 19 (Adv. Account)]**
Solution: As per para 4 of the 'General Instructions for preparation of Statement of Profit and Loss' given in the Schedule III to the Companies Act, 2013, 'other income' does not include operating income.
The term "Revenue from operations" has not been defined under Schedule III to t he Companies Act 2013. However, as per Guidance Note on Schedule III to the Companies Act 2013 this would include revenue arising from a company's operating activities i.e. either its principal or ancillary revenue-generating activities. Whether a particular income constitutes "Revenue from operations" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities. The classification of income would also depend on the purpose for which the particular asset is acquired or held.
As per the information given in the question, X Ltd is a group engaged in manufacture and sale of industrial and FMCG products and its one of the division deals in leasing of properties- Mobile Towers. Since its one division is continuously engaged in leasing of properties, it shall be considered as its principal or ancillary revenue-generating activities. Therefore, the rent arising from such leasing shall be shown under the head "Revenue from operations" and not as "Other Income".
Hence the presentation of rent arising from the leasing of such properties as "other income" in the statement of Profit and Loss is not correct. It should be shown under the head "Revenue from operations".

BUY - BACK OF SECURITIES

25. What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013? Explain. **[(5 Marks – May 23 (Adv. Account)]**
Solution: As per the Companies Act, 2013 a joint stock company has to fulfill the following conditions to buy-back its own equity shares:

(1)

(a) the buy-back is authorised by its articles;

(b) a special resolution has been passed in general meeting of the company authorising the buy-back;
However, the above provisions do not apply where the buy-back is 10% or less of the paid-up equity capital + free reserves and is authorized by a board resolution passed at a duly convened meeting of the directors.

(c) the buy-back must be equal or less than 25% of the total paid-up capital and free reserves of the company: (Resource Test)

(d) Further, the buy-back of shares in any financial year must not exceed 25% of its total paid-up capital and free reserves: (Share Outstanding Test)

(e) the ratio of the debt owed by the company (both secured and unsecured) after such buy-back is not more than twice the total of its paid-up capital and its free reserves: (Debt-Equity Ratio Test)

(f) all the shares or other specified securities for buy-back are fully paid-up;

(g) the buy-back of the shares or other specified securities listed on any recognised stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
Provided that no offer of the buy-back under this sub section shall be made within a period of one year reckoned from the date of closure of a previous offer of buy-back if any. This means that there cannot be more than one buy-back in one year.

(2) Every buy-back shall be completed within twelve months from the date of passing the special resolution, or the resolution passed by the board of directors.

(3) Where a company purchases its own shares out of the free reserves or securities premium account, a sum equal to the nominal value of shares so purchased shall be transferred to the Capital Redemption Reserve Account and details of such account shall be disclosed in the Balance Sheet.

(4) Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against free reserves and/or securities premium account.

LINK OF IMPORTANT VIDEOS

Booster Batch Advanced Accounting

Class 1! AS 16 AS 12 and AS 2: https://youtu.be/-IqLL1MrVdw

Class 2! AS 10 AS 26 AS 28 and AS 17: https://youtu.be/lnyY5hATw48

Class 3! Internal Reconstruction, AS 7,AS 9& AS 25: https://youtu.be/G3aZKynoSME

Class 4! INVESTMENT ACCOUNT(AS 13) AS 19 AS 20 & AS 24: https://youtu.be/OkqCFRWvRJI

Class 5! CASH FLOW STATEMENT (AS 3), AS 15 & AS 22: https://youtu.be/HetXHeodb98

Class 6! AMALGAMATION OF COMPANIES, BUY-BACK OF SECURITIES: https://youtu.be/iu5babgSvaM

Class 7! CONSOLIDATED FINANCIAL STATEMENTS(AS21,23,27)!AS 18! https://youtu.be/YRMNPV7B2YM

Class 8! FINANCIAL STATEMENTS OF COMPANIES, AS 1, AS 4, AS 5, AS 29, INTRODUCTION OF AS & IND AS AND FRAMEWORK! https://youtu.be/NrVGkTm-0Pw

Class 9! Branch Accounting and AS 11! https://youtu.be/mRx8fe9mooM

Play list of Booster Batch! https://www.youtube.com/watch?v=-IqLL1MrVdw&list=PLqE5aHjZDY87mEakbWmaKa08QnkrU_7B_

RTP Jan 25: https://youtu.be/OtOXpZIUj2k

MTP 1 Jan 25: https://youtu.be/w20kX4x6qb8

MTP 2 Jan 25: https://youtu.be/GNIXh-AqAAE

MARATHON OF ICAI STUDY MATERIAL BATCH: https://youtu.be/cS5OkYCknVo

Play list of ICAI Study Material Batch: https://www.youtube.com/watch?v=Nbvhs84a4lA&list=PLqE5aHjZDY868-krklrXH3o4WHRtSwwT9

Play list of all RTP and MTP https://www.youtube.com/watch?v=NrbplGgcWdE&list=PLqE5aHjZDY87bdP2tM6zKaK1K5wZRriZe

MCQ MARATHON: https://youtu.be/G5mgTtxu-1g

Case Scenario Video: https://youtu.be/v9h2w99OUCg

MEASUREMENT PRINCIPLES OF AS: https://youtu.be/36UxPqo8nXQ

Suggested Answer May 24: https://youtu.be/-Mu8ehuwFDo

Suggested Answer Sept. 24: https://youtu.be/LXdXjE-a1xw