

ADVANCED ACCOUNTING

For Intermediate Group-II

By

CA. PARVEEN SHARMA

B.Com (H), F.C.A., A.C.M.A., C.S.

Post Graduation in Accounting Standards, US GAAP & Certified Valuer

ALDINE VENTURES PVT LTD.

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Dedicated

To My Parents

Sh. SATPAL SHARMA

Smt. JANKI DEVI

List of Prowise Learning Centers

S. No.	City	Address	Contacts
1.	AGRA-L2	Office No.201, 2nd Floor, Plot No.91, Gyan Kuteer Building, Near Vijay Nagar Police Chauki OLD VIJAY NAGAR AGRA 282004 UTTAR PRADESH	7668311883
2.	AHMEDABAD-L2	301, Vraj Avenue, 3rd Floor, Above Sams Pizza, Near Swastik Cross Road, CG Road,HL Commerce College Road NAVARANGPURA AHMEDABAD 380009 GUJARAT	9924117102, 9824059667, 9106275486
3.	AHMEDNAGAR	Dynamic Study Center, 7,8 Lodha Heights, Neta Subhash Chowk NAVI PETH AHMEDNAGAR MAHARASHTRA	9764111116, 02412425405
4.	AJMER-L2	Opp. Bal Vatika, Behind Rajasthan Sweet n Namkeen Plaza, Ashok Vihar Colony VAISHALI NAGAR AJMER 305004 RAJASTHAN	7062800333, 9785082928
5.	AKOLA	3rd Floor, Sanket Chambers, Opposite Khandelwal Citi Scan AMANKHA PLOT AKOLA 444001 MAHARASHTRA	9673629992,91 12662448, 9922800035
6.	ALIGARH	A16-B Mansarovar Colony RAM GHAT ROAD ALIGARH 202001 UTTAR PRADESH	9761776000, 7669687572, 8923652320
7.	ALWAR	A-8, 1st Floor, Parshwanath Tower, Tijara Phatak Road ASHOK VIHAR ALWAR 301001 RAJASTHAN	9251432666, 8560092302
8.	ALWAR-L2	175- Gate No.1, 1st Floor, Scheme-1, Opposite Balbharti School ARYANAGAR ALWAR 301001 RAJASTHAN	7297845519, 9610949298
9.	AMBALA	2nd Floor, Above NIIT Center, Near Karan Plaza, SCO 102 PREM NAGAR AMBALA 134003 HARYANA	9354610610, 01712552121
10.	AMBALA-L2	1-A Tribune Colony, Jagadhari Road, Near SD College AMBALA CANTT. AMBALA 133001 HARYANA	9896028089
11.	AMRAVATI	3rd Floor, Gulshan Tower, Near Panchasheel Theatre JAISTAMBH AMRAVATI 444601 MAHARASHTRA	0721-2566960, 9922800035
12.	AMRITSAR	3rd Floor Aventura Mall 35-B, The Mall, Adjoining GOLD GYM MALL ROAD AMRITSAR 143001 PUNJAB	7009525599, 9814708267
13.	ASANSOL	Lower Chelidanga NEAR INCOME TAX OFFICE ASANSOL 713304 WEST BENGAL	9933848313, 9851054139, 9378311295
14.	AURANGABAD-L2	Plot No. 10, Kushal Nagar, Behind Hotel Raj, Near Patidar BhawanJALNA ROAD AURANGABAD 431001 MAHARASHTRA	7666891961

S. No.	City	Address	Contacts
15.	BAREILLY	Sarvodaya Nagar, Near Dharamdutt City Hospital, Opp. Canara Bank SARVODYA NAGAR BAREILLY 243001 UTTAR PRADESH	7535000300, 9917500098, 9837200098
16.	BEAWAR	Siddi Vinayak Complex 3rd Floor STATION ROAD BEAWAR 305901 RAJASTHAN	9461234346, 9460900296
17.	BENGALURU	1328, 41st Cross, 24th A Main, 9th Block, JAYANAGAR BENGALURU 560069 KARNATAKA	9700789797, 9052027062, 9529933179
18.	BERHAMPUR	Meenakshi Nagar Main Road, Near New Mango Market and ICAI Bhawan, GANJAM BERHAMPUR 760002 ODISHA	7377525268, 8249938401
19.	BHAGALPUR	1st Floor, Near Life line Hospital KHALIFA BAGH CHOWK BHAGALPUR 812002 BIHAR	0641-2300129 , 7070222270
20.	BHARATPUR	432, Sec-3 BHARATPUR 321001 RAJASTHAN	9414023610, 8094917555
21.	BHATINDA	#20842, ST No-21/1, Ajit Road NEAR GHORE WALA CHOWK BHATINDA 151001 PUNJAB	9877741000, 0164-5000207
22.	BHILAI	2nd Floor, 117-A NEW CIVIC CENTER BHILAI 490006 CHHATTISGARH	93,40,15,96,36, 07,88,40,00,00 0
23.	BHILWARA-L2	1st Floor, Gurunanak Bhawan, Near Gurudwara, Above Vardhman Plywood SINDHU NAGAR BHILWARA 311001 RAJASTHAN	9887124340
24.	BHIWANI	1st Floor, Below Sahara Pariwar India, Near Indian Bank HASHI GATE BHIWANI 127021 HARYANA	9034384429, 9034926988
25.	BHOPAL	2nd Floor, Plot no.07, Quality Parikrama, Opposite MY FM Office, Zone-1, M.P. Nagar BHOPAL 462011 MADHYA PRADESH	9993922202, 0755-4202202, 7804049012
26.	BHUBANESHWAR	B-238, BDA Duplex, Behind Puspa Clinic and Patra Electronics, BARAMUNDA BHUBANESHWAR 751003 ODISHA	7205083954, 0674-2354986
27.	BHUBANESHWAR-L2	Plot No. C-3, 2nd Floor, Jaydurga Nagar, BOMIKHAL BHUBANESHWAR 751006 ODISHA	9337092055
28.	BIKANER-L2	Knowledge Hub, Parakh Niwas, Near Veterinary Hospital Road GOGA GATE BIKANER 334001 RAJASTHAN	8963005133, 9587611000
29.	BILASPUR	Kirti, 2nd Floor, Above Megma Leasing Ltd RAJENDRA NAGAR BILASPUR 495001 CHHATTISGARH	07752-406785, 8962019903, 07752493416
30.	BULANDSHAHR	1st Floor, Near Bansal Hotel, Behind Alpna Picture Hall PREM NAGAR BULANDSHAHR 203001 UTTAR PRADESH	9557857779, 8218169273
31.	CHANDIGARH	SCO-85/86, 2nd Floor SEC-34 A CHANDIGARH 160022 PUNJAB	9357283838, 01724610610
32.	CHITTORGARH	2nd Floor, Behind Roadways Bus Stand, Opp. Manglam Vatika NEAR ICICI BANK CHITTORGARH 312001 RAJASTHAN	8769111101, 9660661020

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S. No.	City	Address	Contacts
33.	CHURU	G.K.Mall, MAIN ROAD CHURU 331001 RAJASTHAN	01562-250701, 9928982137
34.	CUTTACK	2nd Floor, Dhanawat Complex, Opposite JMG Hero ShowroomMAHATAB ROAD CUTTACK 753001 ODISHA	9040045502, 0671- 6555502 /2313777
35.	DARBHANGA	Kishori Kunj, Bhatiyari Sarai, Donar Road, Infront of Prime Computer DARBHANGA 846004 BIHAR	9163606311, 7544013433
36.	DEHRADUN	2nd Floor, Himalya Apartment, Near Raj Plaza Complex 75, RAJPUR ROAD DEHRADUN 248001 UTTARAKHAND	9997431932, 7900531932
37.	DWARKA	E-1083-84, 2nd Floor, Palam Extension, Sector 7, RAMPHAL CHOWK DWARKA DELHI 110075 DELHI NCR	011-42828247, 8800494365, 8376003743
38.	JANAKPURI	B-1/ 625 Basement Floor, Opposite Metro Pillar No-573, District Center JANAKPURI DELHI 110058 DELHI NCR	8510007638, 011-25613677, 011-40574368
39.	JHANDEWALAN-L2	2E/6, 3rd Floor, Near Jhandewalan Metro Station Gate No. 2 JHANDEWALAN DELHI 110055 DELHI NCR	9311105040, 01142743582
40.	KALKAJI	M-61, 3rd Floor, Above Axis Bank KALKAJI DELHI 110019 DELHI NCR	9899172358, 9911133363
41.	LAJPAT NAGAR	C-118, IInd Floor, Dayanand Colony, Lajpat Nagar IV NEAR SAPNA CINEMA DELHI 110024 DELHI NCR	
42.	LAXMI NAGAR - L	2nd Floor, 1/10, Surana Bhawan, (Near Laxmi Nagar Metro Station) LALITA PARK LAXMI NAGAR DELHI 110092 DELHI NCR	011-42602093, 8510007257/5 8/59, 9999237124
43.	LAXMI NAGAR-L2	U-135D, 2nd Floor, Laxmi Nagar Metro Station Gate. 3 SHAKARPUR DELHI 110092 DELHI NCR	9582390858/ 76
44.	LAXMI NAGAR-L3	S-527, School Block, Near Red Light LAXMI NAGAR DELHI 110092 DELHI NCR	9811582331
45.	MODEL TOWN	H-5, 2nd Floor, Model Town III MODEL TOWNDELHI 110009 DELHI NCR	011-47015544, 9717187812
46.	PITAMPURA	16, 3rd Floor, Vaishali, Pitampura, Near Metro Pillar No-346 PITAMPURA DELHI 110034 DELHI NCR	011-42988465, 42750166, 8510007657
47.	PREET VIHAR-HO	C-56, 2nd Floor, opp. Metro Pillar 82, Above Bata Showroom PREET VIHAR DELHI 110092 DELHI NCR	011-48006600
48.	PREET VIHAR-PARK END	3 Park End Enclave, Above J&K Bank, Vikas Marg PARK ENDELHI 110092 DELHI NCR	9310005040, 01142418352
49.	RAJOURI GARDEN Center	A-9 Second Floor, RAJOURI GARDEN DELHI-110027	8510007637, 011-45110293
50.	SHAKTI NAGAR	27/13, 1st Floor, Nagia Park, Near NDPL, Above Healthy Foods SHAKTI NAGAR DELHI 110007 DELHI NCR	9868635550, 011-47015222, 011-23848687

S. No.	City	Address	Contacts
51.	SOUTH-EX	E – 20, 1st Floor, South Extension – I DELHI 110049 DELHI NCR	011-40515387, 9810068152, 8510007637
52.	DHANBAD	New Market, 5th Floor, BANK MORE DHANBAD 826001 JHARKHAND	9312105040, 01294008630
53.	FARIDABAD	SCF-61, Ground Floor, Opp Nehru College, SEC-16A FARIDABAD 121002 HARYANA	9312105040, 01294008630
54.	FIROZABAD-L2	55/7, Chingamal Ka Bag, Besides the Bank of India FIROZABAD 283203 UTTAR PRADESH	7017311703, 9917169100, 9808482027
55.	GHAZIABAD	B-11, 3rd Floor, RDC GHAZIABAD 201001 DELHI NCR	9910500328, 0120-4293099
56.	GORAKHPUR	IIJT Campus, Near City Mall, PARK ROAD GORAKHPUR 273001 UTTAR PRADESH	9839610555, 8174870101
57.	GREATER NOIDA	Shop No-101-102, Above Kotak Mahindra Bank, HARSHA Mall, ALPHA 1 GREATER NOIDA UTTAR PRADESH	9911597808, 9643434270
58.	VAGDEVI AVA CENTRE Center	4/10, Brodipet, Vagdevi CA Institute OPP. TO SBI BANK GUNTUR 522002 ANDHRA PRADESH	9791783586
59.	GURGAON-OLD DLF	M-8, Old DLF Colony, 2nd Floor, MG Road, NEAR SECTOR 14 GURGAON 122001 HARYANA	9310205040
60.	GURGAON-PHASE-1 Center	A 14/3, DLF City Phase 1, Opposite DT Mega Mall, Opposite Metro Pillar No P10, Near Sikandarpur & DLF Phase 1, Rapid Metro Station, DLF PHASE 1, GURGAON HARYANA	9717125040
61.	GUWAHATI-L2	Backside of Hub Mall, Near NRC office, BHANGAGARH GUWAHATI 781005 ASSAM	9678766808, 8638776417
62.	GWALIOR	1st Floor, House No.55, MLB Colony, Lashkar, ABOVE KAUTILYA ACEDEMY GWALIOR 474001 MADHYA PRADESH	9770702090, 8839982250
63.	HALDWANI	T-2, 5th Floor, Durga City Centre HALDWANI 263139 UTTARAKHAND	9690575747
64.	HANSI	Vidyanagari, SCF 29, Model Town HANSI 125033 HARYANA	9254288957, 9996145458
65.	HAPUR	243, 2nd Floor, Pacca Bagh Mandi HAPUR 245101 UTTAR PRADESH	7055108514, 9536699603
66.	HARIDWAR	C-1, Awas Vikas Colony, Near Prem Nagar Ashram, 2nd Floor of Metro Shoes RANIPUR MODE HARIDWAR 249407 UTTARAKHAND	7060044533, 7060044633, 01334-223050
67.	HATHRAS	Nimisha Commerce Academy, Near Harnath ji ki Dargah BAGLA COLLEGE STREET HATHRAS 204101 UTTAR PRADESH	8445361131
68.	HISAR-L2	1A, Bank Colony, Back Side Kota Classes OPP. TOWN PARK HISAR 125001 HARYANA	8168908441, 9587522240

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S. No.	City	Address	Contacts
69.	HYDERABAD-L2	11-5-460/B, 1st Floor, Above Trimula Printers, Beside Shadan School, Near FTCCI Building RED HILLS HYDERABAD 500004 TELANGANA	8688753279
70.	INDORE	4th Floor, ShreeVardhan Complex, Opp DAVV R N T MARG INDORE 452001 MADHYA PRADESH	9993609781
71.	INDORE-L3	407, Shreevardhan Complex, 4th Floor, Near Lift, 4-RNT Marg 4-R.N.T MARG INDORE 452001 MADHYA PRADESH	9850111777
72.	INDORE-L4	Smart Learning Destination 407, 4th Floor Shreevardhan Complex, Near Lemon Tree Hotel RNT MARG INDORE 452001 MADHYA PRADESH	7697044955
73.	JABALPUR	Near SBI Kamla Nehru Nagar Branch, Behind Mehta Petrol Pump Mr 4 Road, JABALPUR MADHYA PRADESH	9584412345, 9424686090
74.	JAIPUR-LAL KOTHI	B-12, Lalkothi Shopping Centre, Near Laxmi Mandir Tiraha NEAR J.P. KABRA EYE HOSPITAL JAIPUR 302015 RAJASTHAN	0141 4028596, 9929990850, 7073896333
75.	JAIPUR-SUBHASH NAGAR	Plot No. 12, Opposite Krishna Kripa-1, Subhash Nagar Shopping Centre SHASTRI NAGAR JAIPUR 302016 RAJASTHAN	0141 4028655, 9929050655
76.	JALANDHAR	186-187, White Chambers, Near Hotel International, Adjoining Satluj Bus Service, G.T. Road RANJIT NAGAR JALANDHAR 144003 PUNJAB	7087405464, 0181-4619503
77.	JALGAON	Kishor Kunj, 40/2, Ayodhya Nagar, Midc Area JALGAON 425003 MAHARASHTRA	9422558091, 9175631778
78.	JAMMU	JRDS Heights, Sector-14, Railway Road, Near Bahu Plaza NANAK NAGAR JAMMU 180004 JAMMU AND KASHMIR	9419192698, 0191-2439897
79.	JAMSHEDPUR-L2	1st Floor Dey Complex, Outer Circle Road Bistupur, Near Kantilal Gandhi Medica Hospital JAMSHEDPUR 831001 JHARKHAND	6204393692, 8210667751, 06572317323
80.	JHUNJHUNU	103, 1st Floor, Modi Tower NEAR G.B. MODI SCHOOL JHUNJHUNU RAJASTHAN	01592-235288, 9057480288
81.	JODHPUR-L2	Nexus Tower, Behind ICICI Bank, Akhaliya Choraha JODHPUR 342008 RAJASTHAN	9828092745, 7073066444
82.	KAITHAL	1st Floor, In Front of Hotel Gold INN, Near IDBI Bank, Goel Paints KURUKSHETRA ROAD KAITHAL 136027 HARYANA	9729998889,01 746-235350
83.	KANPUR-MALL ROAD Center	129, 2nd Floor, Regal Cinema Bldg THE MALL KANPUR 208001 UTTAR PRADESH	9044030452, 8299318077
84.	KANPUR-SWAROOP NAGAR	113/121-B, Near Madhuraj Nursing Home SWAROOP NAGAR KANPUR 208002 UTTAR PRADESH	7905130974, 8299318077
85.	KANTABANJI	Road No. 02, Near Daily Market KANTABANJI 767039 ODISHA	9439226929, 9937643469

S. No.	City	Address	Contacts
86.	KARNAL	238, Sector- 13 Extension NEAR GURU HARKRSHAN SCHOOL KARNAL 132001 HARYANA	9034422999, 7206552228
87.	KASHIPUR	H.No. 312, Arya Nagar NEAR HIMALYAN PUBLIC SCHOOL KASHIPUR 244713 UTTARAKHAND	8923296051, 05947-277701, 7302722028
88.	KATIHAR	R.K Mission Road, Near Dr. CSP Singh KATIHAR 854105 BIHAR	7004830499, 9831960966
89.	KISHANGANJ	Near old Electric Office, Dharamganj Kishanganj KISHANGANJ 855107 BIHAR	9471204949, 9470401501
90.	KOLHAPUR	A.K.Complex, 1st Floor, 2nd Lane, Beside Metro Hospital SHAHUPURI KOLHAPUR 416002 MAHARASHTRA	9881281118, 8446942108, 8788522733
91.	BEHALA	S L Dhanuka Girl's Hostel, 11, Diamond Harbour Road, Silpara NEAR BEHALA CHOWRASTA KOLKATA 700063 WEST BENGAL	9051399390
92.	BHOWANIPORE	43/1, Kalighat Road, 2nd Floor, At Harish Mukherjee Road Opposite Allahabad Bank of India, Nearest Metro Station Jatin Das Park BHOWANIPORE, KOLKATA 700026 WEST BENGAL	9051399390
93.	GIRISHPARK	191, C.R.Avenue, 4th Floor, Opposite Girish Park Jatadhari Petrol Pump GIRISH PARK KOLKATA 700007 WEST BENGAL	9836832223
94.	GIRISHPARK-2	Metro Tower, 170, CR Avenue, Near Mahajati Sadan GIRISH PARK KOLKATA 700007 WEST BENGAL	9836832223
95.	HOWRAH	49, Dr. Abani Dutta Road, 1st Floor, Near Pilkhana Auto Stand ABANI DUTTA ROAD KOLKATA 711106 WEST BENGAL	7595058006, 9830023636
96.	KANKURGACHI-L2 Center	190A, Maniktala Main Road, Kankurgachi More, 2nd Floor KANKURGACHI KOLKATA 700054 WEST BENGAL	9674006144
97.	TOLLYGUNGE	38/A, Tilak Nagar, Ranikuthi TOLLYGUNGE KOLKATA 700040 WEST BENGAL	8420356111

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S. No.	City	Address	Contacts
98.	KOTA	44A, 3rd Floor, Regent Institute, Shrinathpuram, Near Fire Station KOTA 324010 RAJASTHAN	8387044663
99.	KURUKSHETRA	#779, Near Huda Market, Opp. Water Tank SECTOR-13 KURUKSHETRA 136118 HARYANA	8929306000, 9896181659
100.	LUCKNOW - HAZARATGANJ	3rd FLOOR , TS Tower, 15-A Ashok Marg HAZARATGANJ LUCKNOW 226001 UTTAR PRADESH	0522 4043509, 8299318077
101.	LUDHIANA	IIInd Floor, SCO-2, Model Town Extn. Market, Near Krishna Mandir MODEL TOWN LUDHIANA 141002 PUNJAB	0161-4625002, 9888505550
102.	MANDSAUR	Target Zone, A-11, Mahaveer Villa, Behind Amba Place VENKTESH VIHAR COLONY MANDSAUR 458001 MADHYA PRADESH	9981570020, 7422409062, 7869337234
103.	MATHURA	1014, Chowki Bagh Bahadur Colony, Near SBI Crossing JUNCTION ROAD MATHURA 281001 UTTAR PRADESH	8394940606, 8791637106, 8791092426
104.	ABU LANE	E-254, 2nd Floor, Abu Plaza ABU LANE MEERUT 250001 UTTAR PRADESH	0121-4031152, 9634548950
105.	MORADABAD	Ist Floor, Opposite Syndicate Bank, Near Maharaja Hotel, Budh Bazar, STATION ROAD, MORADABAD 244001 UTTAR PRADESH	9837622221, 9837633331
106.	ANDHERI-L2	B-5/6, 1st Floor, Ratandeeep, Next Building to Shoppers Stop, 140/141, S.V. ROAD ANDHERI, MUMBAI 400058 MAHARASHTRA	9175631778, 8888880589, 7709645241, 9422558091
107.	ANDHERI-L4	302, Third Floor, Navkar Complex, Opposite, Andheri Court, Near Andheri Metro Station, ANDHERI EAST, MUMBAI 400069 MAHARASHTRA	8888880589, 9175631778, 02240260318
108.	BORIVALI-L2	2nd Floor, Target Mall, Opposite Rajmahal Hotel, Chandavarkar Road, BORIVALI (WEST), MUMBAI 400092 MAHARASHTRA	7678011850
109.	DADAR	Block No. 331, 3rd Floor, Hindh Rajasthan Commercial Building, Dada Saheb Phalke Road, Near Kailash Lassi DADAR EAST, MUMBAI 400014 MAHARASHTRA	9175631778, 9422558091

S. No.	City	Address	Contacts
110.	THANE-L2	Office No.208, 3rd Floor, Siddartha Tower, Opp.Khandelwal Sweets, Near Thane Railway Station, Near to Post Office Building THANE WEST MUMBAI 400601 MAHARASHTRA	8422090402, 022-49718357, 7400193539
111.	VASHI-L2	D-616 & 617, 4th Floor, Vashi Plaza, Sector 17, Vashi NAVI MUMBAI MUMBAI 400703 MAHARASHTRA	9769373697, 7400193539, 8104089877
112.	MUZAFFARNAGAR-L2	175 Dwarkapuri, Main Road, Near Savita Homes, Opposite Shiv Mandir MUZAFFARNAGAR 251001 UTTAR PRADESH	8272872400, 7017051057
113.	MUZAFFARPUR	Safalta Class, 524, Lane 13-14, Main Road, Near Laxmi Narayan Mandir GANDHI COLONY MUZAFFARNAGAR 251001 UTTAR PRADESH	9319429997
114.	MUZAFFARPUR Center	Kalambagh Chowk NEAR VAISHALI PASTRY MUZAFFARPUR 842002 BIHAR	8789977629, 7079634170, 8579050943
115.	NAGPUR	Plot No. 193, Bajiprabhu Nagar RAM NAGAR NAGPUR 440033 MAHARASHTRA	9860906422 , 8888731412
116.	NAGPUR-L2	Block No. 4, Bajaj Wing, Mangalwari Complex SADAR NAGPUR 440001 MAHARASHTRA	7276975489
117.	NANDED	Excellent Commerce Academy, 2-11-76/1, Ground Floor, Opp. Galaxy Hospital, Borben Area VAZIRABAD NANDED 431601 MAHARASHTRA	8421873300, 9423443146
118.	NARWANA	1/93, Sanmati Bhawan, Gali No. 1, Patram Nagar, Near Railway Station NARWANA 126116 HARYANA	9467577215, 9466006608, 01684240786, 9728947196
119.	NASHIK-L2	Office 10, 1st Floor, Rajvee enclave, New Pandit Colony, Near old Corporation Building, Sharanpur Road NASHIK 422001 MAHARASHTRA	9503189159
120.	NOIDA	C-23, Sector-2 NEAR SEC-15 METRO STATION NOIDA 201310 DELHI NCR	9911597808, 0120-4574050, 9891915747

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S. No.	City	Address	Contacts
121.	PALI-L2	C/O Lomesh Vyas, 14, Satyanarayan Marg, First Floor, Near Aae Maata ka Temple, Pali Marwar SINDHI COLONY PALI 306401 RAJASTHAN	9024557482, 9636427051
122.	PALWAL	27-A, S.D College Road NEAR ALAWALPUR CHOWK PALWAL 121102 HARYANA	9050868698, 9991675320
123.	PANCHKULA	SCO-34, 2nd Floor, Near Brilliance World School SECTOR- 12 PANCHKULA 134112 HARYANA	9041739393, 0172-4783838
124.	PANIPAT	Pacific Tutorials, Plot No. 1, Sukhdev Nagar Institutional Area NEAR SALAR GANJ GATE PANIPAT 132103 HARYANA	7206941195, 9354405511
125.	PATIALA	SCO-9, New Leela Bhawan Complex NEAR NEW KAMAL LAB PATIALA 147001 PUNJAB	9356283838, 01755009216
126.	PATNA	Shree Education Centre, Pushpayan Budh Marg HARSHWARDHAN ARCADE PATNA 800001 BIHAR	9334231610, 9386836697
127.	PIMPRI-CHINCHWAD	Office No. P-505 & 506, 5th Floor, Mayur Trade Center Phase 1, Chinchwad Station, Chinchwad, Pune PIMPRI-CHINCHWAD 411019 MAHARASHTRA	8275275205, 8668488907
128.	PUNE	3rd Floor, Prestige Point, "A" Wing, Office No. 150, CTS No. 283, Shukrawar Peth, Beside Chinchechi Talim NEAR BAJIRAO ROAD PUNE 411002 MAHARASHTRA	9673239993, 9922733335
129.	RAIPUR	3rd Floor, Jeevan Plaza, Near Crystal Arcade, Lodhipara Chowk SHANKAR NAGAR RAIPUR 492001 CHHATTISGARH	8962019900 /02/03
130.	RAIPUR-L2	Navkar Educational Academy, 2nd Floor, Opp. Surya Vihar, Pachpedi Naka RAIPUR 492001 CHHATTISGARH	9826754111, 7024765411
131.	RAJKOT	Shop No. 15, Shopan Complex, Near HDFC Bank Nirmala Convent Road RAJKOT 360003 GUJARAT	7041654654

S. No.	City	Address	Contacts
132.	RANCHI	3rd Floor Avinash Complex, Opp. Dr. Amit Mukherjee clinic, Near Plaza Cinema, East Jail Road LALPUR RANCHI 834001 JHARKHAND	7091322301, 7091322302
133.	RANCHI-L2	3rd Floor Avinash Complex, Opp. Dr. Amit Mukherjee clinic, Near Plaza Cinema, East Jail Road LALPUR RANCHI 834001 JHARKHAND	7091322301, 7091322302
134.	REWARI	Shop No. 201, Near State Bank of Patiala NAI ANAJ MANDI REWARI 123401 HARYANA	01274-220694, 9468223844, 9996393211, 9992999181
135.	ROHTAK	SCF 187-188 2nd Floor HUDA COMPLEX ROHTAK 124001 HARYANA	7206211862, 01262-271862
136.	ROORKEE	Malviya Chowk, Behind Bank of India, Near Gurukul Coaching GANGA ENCLAVE ROORKEE 247667 UTTARAKHAND	9917913252, 8126153636
137.	ROURKELA	1st Floor, Bangali Pada, Power House Road ROURKELA 769001 ODISHA	8917507572
138.	RUDRAPUR	Plot No. 1, Street No.1, Near Rudra continental MALIK COLONY RUDRAPUR UTTARAKHAND	8958502454
139.	SAHARANPUR-L2	Basement of Punjab & Sindh Bank, Gurudwara Road SAHARANPUR 247001 UTTAR PRADESH	7417352486
140.	SAMBALPUR	Vedic Degree College AT-PABPALI PO-SASON SAMBALPUR 768200 ODISHA	9439943670, 8249899430, 9078010660
141.	SAMBALPUR-L2	Lalan Commerce Coaching, In front of G.M.University FATAL SAMBALPUR 768001 ODISHA	6372180028
142.	SANGRUR	Rani di Kothi SANGRUR 148001 PUNJAB	9872251988, 9464903577
143.	SATNA	Bharti Furniture, Rewa Road NEAR BUS STAND SATNA 485001 MADHYA PRADESH	9893346906

List of Prowise Learning Centers

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S. No.	City	Address	Contacts
144.	SILIGURI-L2 Center	1st Floor, M.G. Road, Chowrasta KHALPARA, SILIGURI 734005 WEST BENGAL	9832697217
145.	SIRSA	212-MC, Commercial Complex, Near Laxmi Sweets BEHIND LIC BUILDING SIRSA 125055 HARYANA	8094069969, 9999825067
146.	SOLAN	Vidyanagari, Basal Road, Chambaghat SOLAN 173213 HIMACHAL PRADESH	9218344445, 9996145458
147.	SONIPAT	2nd, Super Plaza, Near Gandhi Chowk, Sec-14 NEAR GANDHI CHOWK SONIPAT 131001 HARYANA	9034862862, 8396839630
148.	SRI GANGANAGAR	Plot No 11, Harmilapi Colony HARMILAPI COLONY SRI GANGANAGAR 335001 RAJASTHAN	8094069969, 7073054265
149.	SRINAGAR	Raja Building, Gol Market, Karan Nagar NEAR WOMENS PLAZA SRINAGAR 190010 JAMMU AND KASHMIR	8491992143, 9419069420
150.	SULTANPUR	Rajapuriya Agencies Nestle, Shyama Vatika, Allahabad Road, Near Dariyapur Tiraha, Opposite Dena Bank SULTANPUR 228001 UTTAR PRADESH	9415136579, 7007915500
151.	SUMERPUR	1st Floor, Mahaveer Complex, Behind Bapu Sabji Mandi SUMERPUR 306902 RAJASTHAN	02933252679, 9602220679
152.	SURAT	4th Floor, Sarvodaya Education Trust, Opp. G-3 Show Room, Near Narmad Library GHOD-DOD ROAD SURAT 395007 GUJARAT	7359093099, 8866093099
153.	SURAT-L2	2nd Floor, Harekrishna Complex, Below Eagle Classes, Mini Bazar VARACHHA ROAD SURAT 395006 GUJARAT	8866093099, 7359093099
154.	TARANAGAR	Main Road, Ward No. 8, Opposite Netrajyoti Hospital TARANAGAR 331304 RAJASTHAN	9672935555, 9828255821
155.	TINSUKIA	Raj Tower, Opp. Blood Bank S.R. LOHIA ROAD TINSUKIA 786125 ASSAM	9435036660, 0374-2334002

S. No.	City	Address	Contacts
156.	UDAIPUR-L2	7A New Mahaveer Nagar, Gali No.4, Sawaraiya Dairy Road SECTOR-4 UDAIPUR 313001 RAJASTHAN	7220009481, 7220009482
157.	UJJAIN	SH-1, 2nd Floor, A Block, Near Madhav Club DAWA BAZAR UJJAIN 456010 MADHYA PRADESH	9522571010
158.	VADODARA	G-28, Blue Diamond Complex, Near Fatehgunj Petrol Pump FATEHGUNJ VADODARA 390002 GUJARAT	7737800505
159.	VARANASI	D-59/35+35 AP MAHMOORGANJ VARANASI 221010 UTTAR PRADESH	7080195599, 9044033999
160.	VIJAYAWADA AVA CENTRE Center	Vagdevi CA Institute, 40-16-7A, 1st Floor, Siddhartha Mahila Kalasala Road LABBIPET VIJAYAWADA 520010 ANDHRA PRADESH	9700716787
161.	VIZAG AVA CENTRE Center	Vagdevi CA institute, F2, Above SBI SRINAGAR VISAKHAPATNAM 530016 ANDHRA PRADESH	9700716787
162.	YAMUNA NAGAR	SCO 34, 2nd Floor, Sector 17, Huda, Near Red Cross Bhawan JAGADHRI YAMUNA NAGAR 135003 HARYANA	7404909400, 7206001666

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SYLLABUS

PAPER 5: ADVANCED ACCOUNTING

(One paper – Three hours – 100 marks)

Objectives:

1. To acquire the ability to apply specific Accounting Standards and legislations to different transactions and events and in preparation and presentation of financial statements of business entities;
2. To understand and apply financial reporting and regulatory requirements of Banking Companies and NBFCs.

Contents:

1. Application of Accounting Standards:

- AS 4: Contingencies and Events Occurring After the Balance Sheet Date
- AS 5: Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
- AS 7: Construction Contracts
- AS 9: Revenue Recognition
- AS 14: Accounting for Amalgamations
- AS 17: Segment Reporting
- AS 18: Related Party Disclosures
- AS 19: Leases
- AS 20: Earnings Per Share
- AS 22: Accounting for Taxes on Income
- AS 24: Discontinuing Operations
- AS 26: Intangible Assets
- AS 29: Provisions, Contingent Liabilities and Contingent Assets.

2. Special Aspects of Company Accounts

- (i) Accounting for employee stock option plan;
- (ii) Buy back of securities;
- (iii) Equity shares with differential rights.

3. Reorganization and liquidation of Companies

- (i) Accounting for amalgamation (excluding inter-company holding) and reconstruction;
- (ii) Accounting involved in liquidation of companies.

4. Banking Companies and Non-Banking Financial Companies and regulatory requirements thereof.

5. Consolidated Financial Statements

Concept of consolidation and simple problems on Consolidated Financial Statements with single subsidiary (excluding problems involving acquisition of Interest in Subsidiary at Different Dates; Different Reporting Dates of Holding and Subsidiary; Disposal of a Subsidiary and Foreign Subsidiaries).

6. Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

Notes:

1. If either new Accounting Standards (ASs), Announcements and Limited Revisions to ASs are issued or the earlier ones are withdrawn or new ASs, Announcements and Limited Revisions to AS are issued in place of existing ASs, Announcements and Limited Revisions to AS, the syllabus will accordingly include/exclude such new developments in the place of the existing ones with effect from the date to be notified.
2. The specific exclusions, in any topic covered in the syllabus, will be effected, if any, by way of Study Guidelines.

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Question 2

Find out the income to be recognised at Good Bank Limited for the year ended 31.3.2012 in respect of Interest on advances (₹ in lakhs) as detailed below:

	Performing Assets		N.P.A.	
	Interest earned	Interest received	Interest earned	Interest received
Term loan	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24
Bills purchased and discounted	300	300	100	40

(Study Material)

Question 3

Find out the income to be recognised by ABC Bank Ltd. for the year ended 31st March, 2014 in respect of interest on advances [₹ in Lakhs] as detailed below:.

	Performing Asset		N.P.A.	
	Interest earned	Interest received	Interest earned	Interest received
Terms Loan	280	180	170	20
Cash credits and overdrafts	1700	1630	310	48
Bills purchased and discounted	400	400	180	70

(Study Material)

Question 4

Following are the statements of interest on advances 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, 2013:

(₹ in lakhs)		
Performing Assets	Interest earned	Interest received
Cash credit and overdrafts	1,800	1,060
Term loans	480	320
Bills purchased and discounted	700	550
Non-performing Assets		
Cash credit and overdrafts	450	70
Term loan	300	40
Bills purchased and discounted	350	36

(Hints: Total income to be recognized ₹ 3,126 lakhs)

(Study Material)

Question 5

Given below interest on advances of a commercial bank (₹ in lakhs)

	Performing Assets		NPA	
	Interest earned	Interest received	Interest earned	Interest received
Term Loans	120	80	75	5
Cash credits and overdrafts	750	620	150	12
Bills purchased and discounted	150	150	100	20

Find out the income to be recognized for the year ended 31st March, 2012.

(Study Material)

Question 6

KC Bank Statement of interest on advances in respect of Performing assets and Non Performing Assets are as follows:—

(in lakhs)

	Performing Assets		Non Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 2012.

(Study Material)

Question 7

Find out the income to be recognised in the case of SS Bank for the year ended 31st March, 2012:

(₹ in lakhs)

Performing Assets Non-performing Assets				
	Interest accrued	Interest received	Interest accrued	Interest received
Term loans	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24

(Study Material)

Question 8

Rajatapeeta Bank. Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 1997:

	<i>Term Loan</i>	<i>Export Credit</i>
Balance Outstanding on 31.03.06	₹35 lakhs	₹30 lakhs
DICGC/ECGC cover	40%	50%
Securities held	₹15 lakhs	₹10 lakhs
Realisable value of Securities	₹10 lakhs	₹08 lakhs

Compute necessary Provisions to be made for the year ended 31st March, 2006.

(May 2004, 6 Marks)

Question 9

Find out the income to be recognised by X Bank Limited for the year ended 31.3.2009:

(₹ in lakhs)

	Performing Assets		Non Performing Assets	
	Interest accrued	Interest received	Interest accrued	Interest received
Term loan	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24

(November, 2009, 2 Marks)

NPA

Question 10

On 31 March 2013, there is an unsecured loan of ₹ 8,00,000 to Shri Pankaj in the loan ledger of a Sona Bank. It is found on enquiry that the financial position of the borrower is bad and doubtful. Interest on the said loan has accrued ₹ 80,000 and is yet to be recorded. During 2013-14, the bank is able to realise only 80% of the outstanding amount on account of customer's bankruptcy. Show how the transactions would be recorded in the books of the Sona bank.

(Study Material)

Provisioning

Question 11

From the following information find out the amount of provisions to be shown in the Profit and Loss Account of a Commercial Bank:

Assets	(₹ in lakhs)
Standard	4,000
Sub-standard	2,000
Doubtful upto one year	900
Doubtful upto three years	400
Doubtful more than three years	300
Loss Assets	500

(Study Material)

Question 12

From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial bank:

	Assets	₹ in lakhs
(i)	Standard (Value of security ₹ 6,000 lakhs)	7,000
(ii)	Sub-standard	3,000
(iii)	Doubtful	
	(a) Doubtful for less than one year (Realisable value of security ₹ 500 lakhs)	1,000
	(b) Doubtful for more than one year, but less than 3 years (Realisable value of security ₹ 300 lakhs)	500
	(c) Doubtful for more than 3 years (No security)	300

(Study Material)

Question 13

From the following information of details of advances of X Bank Limited calculate the amount of provisions to be made in profit and loss account for the year ended 31.3. 2012:

Asset classification	₹ in lakhs
Standard	6,000
Sub-standard	4,400
Doubtful:	
For one year	1,800
For two years	1,200
For three years	800
For more than three years	600
Loss assets	1,600

(Study Material)

Question 14

From the following information of details of advances of Zenith Bank Ltd., calculate the amount of provisions to be made in Profit and Loss Account for the year ended on 31-3- 2012:

Assets classification	(₹ in lakhs)
Standard	10,000
Sub-standard	6,400
Doubtful:	
for one year	3,200
for two years	1,800
for three years	900
for more than three years	1,100
Loss assets	3,000

(Study Material)

Question 15

From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial Bank for the year ending on 31-03-2012.

Assets (Category of Advances)	₹ in Lakhs
Standard Advances	7,000
Sub-standard Advances	3,500
(Include secured exposures ₹ 1,000 Lakhs and balances unsecured exposures ₹ 2,500 Lakhs includes ₹ 1,500 Lakhs in respect of infrastructure loan accounts where escrow accounts are available)	
Doubtful advances- unsecured portion	1,500
Doubtful advances- secured portion	
For doubtful up to 1 year	500
For doubtful more than 1 year and up to 3 years	600
For doubtful more than 3 years	300
Loss Advances	200

(Study Material)

Question 16

From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account:

	₹ in lakh
Assets	
Standard	30,000
Sub-standard	20,000
Doubtful:	
For one year (secured)	8,000
For two years and three years (secured)	2,500
For more than three years (secured by mortgage of Plant & Machinery ₹ 500 lakh)	2,000
Loss Assets	1,700

(Study Material)

Question 17

From the following information, find out the amount of provisions to be shown in the Profit and Loss Account of AG bank.

	₹ in lakhs
Assets	
Standard	5000
Sub-standard	4000
Doubtful: for one year	800
: for three years	600
: for more than three years	200
Loss Assets	1000

(Study Material)

Question 18

From the following information of AY Limited, compute the provisions to be made in the Profit and Loss account:

	₹ in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery ₹ 600 lakhs)	2,000
Loss Assets	1,500

(Study Material)

Question 19

From the following information find out the amount of provisions to be shown in the Profit and Loss Account of a Commercial Bank as on 31.03.2007.

Assets	₹ (In Lakhs)
Standard	4,000
Sub-standard	2,000
Doubtful one year	900
Doubtful three years	400
Doubtful more than three years	300
Loss Assets	500

(November 2004, 4 Marks)

Question 20

From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial bank:

	Assets	₹ in lakhs
(i)	Standard (Value of security ₹ 6,000 lakhs)	7,000
(ii)	Sub-standard	3,000
(iii)	Doubtful	
	(a) Doubtful for less than one year (Realisable value of security ₹ 500 lakhs)	1,000
	(b) Doubtful for more than one year, but less than 3 years (Realisable value of security ₹ 300 lakhs)	500
	(c) Doubtful for more than 3 years (No security)	300

(May 2006, 8 Marks)

Question 21

From the following information of Great Bank Limited, compute the provisions to be made in the profit and Loss account:

	₹
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of Plant and Machinery (₹600 lakhs)	2,000
Non-recoverable Assets	1,500

(November 2008, 4 Marks)

Question 22

From the following information of details of advances of Zenith Bank Ltd., calculate the amount of provisions to be made in Profit and Loss Account for the year ended on 31-3- 2010:

Assets classification	(₹ in lakhs)
Standard	10,000
Sub-standard	6,400
Doubtful:	
for one year	3,200
for two years	1,800
for three years	900
for more than three years	1,100
Loss assets	3,000

(November 2010, 5 Marks)

Question 23

From the following information, compute the amount of provisions to be made in the Profit and Loss Account of a Commercial Bank for the year ending on 31-03-2012.

Assets (Category of Advances)	₹In Lakhs
Standard Advances	7,000
Sub-standard Advances	3,500
(Include secured exposures ₹1,000 Lakhs and balances unsecured exposures ₹2,500 Lakhs includes ₹1,500 Lakhs in respect of infrastructure loan accounts where escrow accounts are available)	1,500
Doubtful advances-unsecured portion	
Doubtful advances-secured portion	
For doubtful up to 1 year	500
For doubtful more than 1 year and up to 3 years	600
For doubtful more than 3 years	300
Loss Advances	200

(May 2012, 5 Marks)

Question 24

From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account:

	₹ in lakh
Assets	
Standard	30,000
Sub-standard	20,000
Doubtful:	
For one year (secured)	8,000
For two years and three years (secured)	2,500
For more than three years (secured by mortgage of Plant & Machinery ₹ 500 lakh)	2,000
Loss Assets	1,700

(November, 2013, 4 Marks)

Covered Advances

Question 25

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, 2012:

- (i) Packing credit outstanding from Food Processors ₹ 60 lakhs against which the bank holds securities worth ₹ 15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.
- (ii) Other advances:

Assets classification	₹ in lakhs
Standard	3,000
Sub-standard	2,200
Doubtful :	
For one year	900
For two years	600
For three years	400
For more than 3 years	300
Loss assets	600

(Study Material)

Question 26

Bidisha Bank Ltd. had extended the following credit lines to a Small Scale Industry which had not paid any interest since March, 2006.

	Term Loan	Export Credit
Balance outstanding on 31.3. 2012	₹ 70 Lacs	₹ 60. Lacs
DICGC/ECGC Cover	50%	40%
Securities held	₹ 30 Lacs	₹ 25 Lacs
Realisable value of securities	₹ 20 Lacs	₹ 15 Lacs

Compute the necessary provisions to be made for the year ended 31st March, 2012

(Study Material)

Question 27

Rajatapeeta Bank Ltd. had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2006:

	Term Loan	Export Loan
Balance Outstanding on 31.03. 2012	₹ 35 lakhs	₹ 30 lakhs
DICGC/ECGC cover	40%	50%
Securities held	₹ 15 lakhs	₹ 10 lakhs
Realisable value of Securities	₹ 10 lakhs	₹ 08 lakhs

Compute necessary provisions to be made for the year ended 31st March, 2012.

(Study Material)

Question 28

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (upto 1 year).

Details of the accounts are :

Outstanding ₹	6,73,000
ECGC coverage	25% (Limited to ₹ 1,00,000)
Value of security held	₹ 1,50,000

Compute the necessary provision to be made by a Bank as per applicable rates.

(Study Material)

Question 29

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years). Detail of the account is:

Outstanding	₹ 7,24,000
ECGC Cover	30% of outstanding (Subject to maximum of ₹ 1,50,000)
Value of security	
As per valuation on the date of grant of loan	2,25,000
As per realizable value as on date of Balance Sheet	1,75,000

Compute the necessary provision to be made by bank as per applicable rate.

(Study Material)

Question 30

The outstanding amount (funded as well as unfunded) as on 31st March, 2013 was: ₹ 10,000.

The realizable value of security of the same was ₹ 8,000.

Period for which the advance has remained in 'doubtful' category as on 31st March, 2013 was: 2.5 years.

(Study Material)

Question 31

Outstanding Balance	₹ 4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on March 31, 2013)
Value of security held ₹ 1.50 lakhs	

You are required to calculate provisions.

(Study Material)

Question 32

Outstanding Balance	₹ 4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on March 31, 2012)
Value of security held (realizable value only 80%)	₹ 1.50 lakhs

You are required to calculate provisions as per applicable rates.

(Study Material)

Question 33

In KR Bank, the doubtful assets (more than 3 years) as on 31.3.2012 is ₹ 1,000 lakhs. The value of security (including DICGC 100% cover of ₹ 100 lakhs) is ascertained at ₹ 500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(Study Material)

Question 34

CGTSI Cover: 75% of the amount outstanding or 75% of the unsecured amount or ₹18.75 lakh. Whichever is less. Assume advance as Doubtful-III.

Realisable value of Security	: ₹1.50 lakh
Balance outstanding	: ₹ 10.00 lakh

(Annexure of Study Material)

Question 35

CGTSI cover: 75% of the amount outstanding or 75% of the unsecured amount or ₹ 18.75 lakh whichever is less. Advance is Doubtful-III

Realisable value of Security:	: ₹ 10.00 lakh.
(a) Balance outstanding	: ₹ 40.00 lakh

(Annexure of Study Material)

Question 36

In X Bank Ltd., the doubtful assets (more than 3 years) as on 31.3.2007 is ₹1,000 lakhs. The value of security (including DICGC 100% cover of ₹100 lakhs) is ascertained at ₹500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(May 2007 & November 2008, 2 Marks)

Question 37

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (upto 1 year).

Details of the accounts are:

Outstanding	₹ 6,73,000
ECGC coverage	25% (Limited to ₹ 1,00,000)
Value of security held	₹ 1,50,000

Compute the necessary provision to be made by a Bank as per applicable rates.

(November 2012, 5 Marks)

Question 38

A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years).

Detail of the account is:

Outstanding	₹ 7,24,000
ECGC Cover	30% of outstanding (Subject to maximum of ₹ 1,50,000)
Verify of security	
As per valuation on the date of grant of loan	2,25,000
As per realizable value as on date of Balance Sheet	1,75,000

Compute the necessary provision to be made by bank as per applicable rate.

(May 2014, 4 Marks)

Question 39

From the following information of M/s. XY Bank Ltd. for the year ended 31st March, 2014, compute the provisions to be made in the Bank's Books for Doubtful Assets:

	₹ in Lakhs
Doubtful Assets (More than 3 Years)	2,000
DICGC 100% Cover	200
Value of Security including DICGC Cover	1,000

(May, 2015, 4 Marks)

Rebate on Bills

Question 40

The following particulars are extracted from the (Trial Balance) Books of the M/s Commercial Bank Ltd. for the year ending 31st March, 2013:

		₹
(i)	Interest and Discounts	1,96,62,400
(ii)	Rebate on Bills Discounted (balance on 1.4. 2012)	65,040
(iii)	Bills Discounted and purchased	10,67,45,400

It is ascertained that proportionate discount not yet earned on the Bills Discounted which will mature during 2013 - 2014 amounted to ₹ 92,760.

Pass the necessary Journal entries with narration adjusting the above and show:

- (a) Rebate on Bill Discounted Account; and
- (b) Interest and Discount Account in the ledger of the Bank.

(Study Material)

Question 41

The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st March, 2013:

Rebate on bills discounted as on 1-4- 2012 68,259 (Cr.) Discount received 1,70,156 (Cr.)
Analysis of the bills discounted reveals as follows:

Amount (₹)	Due date
2,80,000	June 1, 2013
8,72,000	June 8, 2013
5,64,000	June 21, 2013
8,12,000	July 1, 2013
6,00,000	July 5, 2013

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2013 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(Study Material)

Question 42

As on 31st March 2012, Strong Bank Ltd. has a balance of ₹ 27 crores in “rebate on bills discounted” account. The bank provides you the following further information:

- (1) During the financial year ending 31st March 2013, Strong Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.
- (2) Bills of exchange of ₹ 600 crores were due for realization from the acceptors/customers after 31st March 2013, the average period outstanding after 31st March 2013, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(Study Material)

Question 43

The following facts have been taken out from the records of Dee Bank Ltd. as on 31st March, 2011:

	Dr. (₹)	Cr. (₹)
Rebate on bills discounted (not due on March 31st, 2010)		45,800
Discount received		2,02,500
Bills discounted	12,25,000	

An analysis of the bills discounted is as follows:

	Amount ₹	Due date	Rate of discount
(i)	3,75,000	April 8	12%
(ii)	1,50,000	May 5	14%
(iii)	2,20,000	June 12	14%
(iv)	4,80,000	July 15	15%

You are required to:—

- (i) Calculate rebate on bills discounted as on 31st March, 2011.
- (ii) The amount of discount to be credited to the profit and loss account.
- (iii) Show necessary journal entries in the books of Dee Bank Ltd. as on 31st March, 2011.

(Study Material)

Question 44

Given below is an extract from the trial balance of T.K. Bank Limited as on 31st December, 2012:

Particulars	Debit ₹	Credit ₹
Bills discounted	12,64,000	----
Rebate on bills discounted (1.1. 2012)	----	8,340
Discount received for the year		85,912

An analysis of the bills discounted is shown below:

Amount ₹	Due date in 2013	Rate of discount (% p.a.)
1,40,000	March 6th	5
4,36,000	March 12th	4.5
2,82,000	March 26th	6
4,06,000	April 6th	4

Show the workings, how the relevant items will appear in the bank's Profit and Loss account as on 31st December, 2012 and in bank's Balance Sheet as on 31st December, 2012.

(Study Material)

Question 45

From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Hamara Bank Limited' for the year ending 31st March, 2013:

	₹ in lakhs		₹ in lakhs
Interest and discount	4,430	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Interest accrued on Investments	10		

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	15
(ii) Classifications of Advances:	
Standard Assets	2,500
Sub-Standard Assets	560
Doubtful Assets not covered by security	255
Doubtful Assets covered by security	
For 1 year	25
For 2 years	50

	₹ in lakhs
For 3 years	100
For 4 years	75
Loss Assets	100
(iii) Make tax provisions @ 35% of the profit.	
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	40

(Study Material)

Question 46

The following is an extract from Trial Balance of overseas Bank as at 31st March, 2013

	₹	₹
Bills discounted	12,64,000	
Rebate on bills discounted not due on March 31st, 2012		22,160
Discount received		1,05,708

An analysis of the bills discounted is as follows:

	Amount ₹	Due Date 2013	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 31-3-2013 and show necessary journal entries.

(Study Material)

Question 47

On 31st March, 2012, Uncertain Bank had a balance of ₹ 9 crores in "rebate on bills discounted" account. During the year ended 31st March, 2013, Uncertain Bank 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 acceptors/customers after 31st March, 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Uncertain Bank asks you to pass journal entries and show the ledger accounts pertaining to:

- discounting of bills of exchange and
- rebate on bills discounted.

(Study Material)

Question 48

The following information is available in the books of X Bank Limited as on 31st March, 2013:

	₹
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2012)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill (₹)	Due date	Rate of Discount
18,25,000	5.6.2013	12%
50,00,000	12.6.2013	12%
28,20,000	25.6.2013	14%
40,60,000	6.7.2013	16%

Calculate the rebate on bills discounted as on 31.3.2013 and give necessary journal entries.

(Study Material)

Question 49

Calculate Rebate on Bills discounted as on 31 December, 2013 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	15.10.13	25,000	5 months	8%
(ii)	10.11.13	15,000	4 months	7%
(iii)	25.11.13	20,000	4 months	7%
(iv)	20.12.13	30,000	3 months	9%

(Study Material)

Question 50

The following is an extract from the Trial Balance of Dream Bank Ltd. as at 31st March, 2006:

Rebate on bills discounted as on 1-4- 2005 68,259 (Cr.)

Discount received 1,70,156 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (₹)	Due date
2,80,000	June 1, 2006
8,72,000	June 8, 2006
5,64,000	June 21, 2006
8,12,000	July 1, 2006
6,00,000	July 5, 2006

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2006 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(November 2006, 8 Marks)

Question 51

The following information is available in the books of X Bank Limited as on 31st March, 2007:

	₹
Bills discounted	1,37,05,000
Rebate on bills discounted (as on 1-4-2006)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of Bills (₹)	Due Date	Rate of Discount
18,25,000	05-06-2007	12%
50,00,000	12-06-2007	12%
28,20,000	25-06-2007	14%
40,60,000	06-07-2007	16%

Calculate the rebate on bills discounted as on 31-3-2007 and give necessary Journal Entries

(November 2007, 8 Marks)

Question 52

Given below is an extract from the trial balance of T.K. Bank Limited as on 31st December, 2009:

Particulars	Debit ₹	Credit ₹
Bills discounted	12,64,000	----
Rebate on bills discounted (1.1. 2009)	----	8,340
Discount received for the year		85,912

An analysis of the bills discounted is shown below:

Amount ₹	Due date in 2010	Rate of discount (% p.a.)
1,40,000	March 6th	5
4,36,000	March 12th	4.5
2,82,000	March 26th	6
4,06,000	April 6th	4

Show the workings, how the relevant items will appear in the bank's Profit and Loss account as on 31st December, 2009 and in bank's Balance Sheet as on 31st December, 2009.

(May 2010, 8 Marks)

Question 53

The following particulars are extracted from the records of M/s. Engco Bank Limited for the year ended 31st March, 2012:

	Amount (₹)
Rebate on bills discounted (not due on March 31st, 2011)	60,610
Discount received	6,10,800
Bills discounted	24,42,250

An analysis of the bills discounted is as follows:

Amount (₹)	Due Date
3,75,000	April 15, 2012
4,90,000	May 6, 2012
2,45,000	June 1, 2012
3,68,000	June 20, 2012
4,85,000	July 4, 2012

The rate of discount is 12% per annum. You are required to :

- Calculate rebate on bills discounted as on 31st March, 2012.
- Determine the amount of discount to be credited to the profit and loss account for the year ended 31st March, 2012.
- Show the necessary journal entries in the books of M/s. Engco Bank Ltd. as on 31st March, 2012.

(November 2011, 8 Marks)

Question 54

The following information is available in the books of X Bank Limited as on 31st March, 2013:

	₹
Bills discounted	1,37,05,000
Rebate on Bills discounted (as on 1.4.2012)	2,21,600
Discount received	10,56,650

Details of bills discounted are as follows:

Value of bill (₹)	Due date	Rate of Discount
18,25,000	5.6.2013	12%
50,00,000	12.6.2013	12%
28,20,000	25.6.2013	14%
40,60,000	6.7.2013	16%

Calculate the rebate on bills discounted as on 31.3.2013 and give necessary journal entries in the books of X Bank Ltd. as on 31st March, 2013.

(May 2013, 8 Marks)

Question 55

ABC Bank Ltd. has a balance of ₹ 40 crores in "Rebate on bills discounted" account as on 31st March, 2014. The Bank provides you the following information:

- During the financial year ending 31st March, 2015 ABC Bank Ltd. discounted bills of exchange of ₹ 5000 crores charging interest @ 14% and the average period of discount being 146 days.

- (ii) Bills of exchange of ₹ 500 crores were due for realization from the acceptors/customers after 31st March, 2015. The average period of outstanding after 31st March, 2015 being 73 days. These bills of exchange of ₹ 500 crores were discounted charging interest @ 14% p.a.

You are requested to pass necessary Journal Entries in the books of ABC Bank Ltd. for the above transactions. *(Study Material)*

Bills for collection

Question 56

From the following details, prepare bills for collection (Asset) Account and Bills for collection (Liability) Account:

	₹
On 1.4. 2012, Bills for Collection were	51,00,000
During the year 2012-13 Bills received for Collection amounted to	75,00,000
Bill collected during the year 2012-13	98,47,000
Bill dishonoured and returned during the year	27,10,000

(Study Material)

Question 57

On 01.04.2013 bills for collection was 7 lacs. During 2013-14 bills received for collection amounted to 64.5 lacs. Bills collected were 47 lacs. Bills dishonoured was 5.5 lacs. Prepare Bills for collection (Assets) and Bills for Collection (Liabilities) Accounts.

(Study Material)

Question 58

From the following details, prepare bills for collection (Asset) Account and Bills for collection (Liability) Account:

	₹
On 1.4. 2012, Bills for Collection were	51,00,000
During the year 2012-13 Bills received for Collection amounted to	75,00,000
Bill collected during the year 2012-13	98,47,000
Bill dishonoured and returned during the year	27,10,000

(May 2006, 4 Marks)

Contingent Liability

Question 59

From the following details prepare "Acceptances, Endorsements and other Obligation A/c" as would appear in the General Ledger.

On 1.4.2013 Acceptances not yet satisfied stood at ₹ 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 (for transactions during the year) revealed the following:

Client Acceptances/Guarantees Remarks

	₹	
A	10,00,000	Bank honoured on 10.6.2013
B	12,00,000	Party paid off on 30.9. 2013
C	5,00,000	Party failed to pay and bank had to honour on 30.11.2013
D	8,00,000	Not satisfied upto 31.3.2014
E	5,00,000	-do-
F	<u>2, 70,000</u>	-do-
Total	<u>42,70,000</u>	

(Study Material)

Capital Adequacy Ratio

Question 60

A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

	(₹ in crores)
Equity share capital	500.00
Statutory reserve	270.00
Capital reserve (of which ₹ 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00

	(₹ in crores)
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

(Study Material)

Question 61

A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk-adjusted asset and risk weighted assets ratio -

Capital Funds:	(Figures in ₹ lakhs)
Equity Share Capital	4,80,00
Statutory Reserve	2,80,00
Capital Reserve (of which ₹ 280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
Assets:	
Cash Balance with RBI	4,80
Balances with other Bank	12,50
Claims on Banks	28,50
Other Investments	782,50
Loans and Advances:	
(i) Guaranteed by government	128,20
(ii) Guaranteed by public sector undertakings of Government of India	702,10
(iii) Others	52,02,50
Premises, furniture and fixtures	182,00
Other Assets	201,20
Off-Balance Sheet Items:	
Acceptances, endorsements and letters of credit	37,02,50

(Study Material)

Question 62

A loan outstanding of ₹ 50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50%. What is the value of Risk-adjusted asset?

(Study Material)

Question 63

A loan outstanding of ₹50,00,000 has DICGC cover. The loan guaranteed by DICGC is assigned a risk weight of 50% what is the value of Risk-adjusted asset?

(May 2008, 2 Marks)

Question 64

A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

	(₹ in crores)
Equity share capital	500.00
Statutory reserve	270.00
Capital reserve (of which ₹ 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

(November 2010, 8 Marks)

Question 65

A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier-1 and tier-II Capitals. Find out the risk-adjusted and risk weighted assets and capital adequacy ratio:

Capital Funds:	(₹in Crores)
Paid up Equity Share Capital	750
Statutory Reserve	150
Share Premium	150
Capital Reserve (of which Capital Funds ₹40 Crore were due to revaluation of assets and balance due to sale)	90
Assets:	
Cash balance with RBI	60
Claims on Banks	170
Other Investments	2,300

Capital Funds:	(₹ in Crores)
Loss and Advances:	
Guaranteed by Government of India/State Government	400
Granted to Staff of bank fully covered by Super Annuation	
Benefits and mortgage of Flat/House	50
Other Loans and Advances	6,170
Premises, Furniture and fixtures, Other Assets	3,925
Intangible Assets	15
Off-Balance Sheet Items:	
Acceptance, Endorsements and Letter of Credit, Guarantees and Other obligations.	1,550

(May 2012, 8 Marks)

Question 66

A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio. State your observation on the risk weighted asset ratio.

Particulars	Amount (₹ in crores)
Equity Share Capital	400.00
Statutory Reserve	250.00
Capital Reserve (of which ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets)	86.00
<u>Assets:</u>	
Cash Balance with RBI	12.00
Balance with other Banks	20.00
Other Investments	40.00
<u>Loan & Advances</u>	
(i) Guaranteed by Government	14.50
(ii) Others	5,465.00
Premises Furniture & Fixtures	74.00
<u>Off Balance Sheet Items</u>	
(i) Guarantees and other obligations	700.00
(ii) Acceptances, endorsements and letter of credit	4,900.00

(November, 2014, 8 Marks)

Final Accounts – P & L Accounts

Question 67

From the following information, prepare Profit and Loss Account of Zed Bank Ltd. for the year ended 31.3. 2013:

	(₹ in '000)
Interest and Discount (Includes interest accrued on investments)	8,860
Other Income	220
Interest expended	2,720
Operating expenses	2,830
Interest accrued on Investments	10
Additional Information:	
(a) Rebate on bills discounted to be provided for	30
(b) Classification of Advances:	
(i) Standard assets	4,000
(ii) Sub-standard assets	2,240
(iii) Doubtful assets – (fully unsecured)	390
(iv) Doubtful assets – covered fully by security	
Less than 1 year	100
More than 1 year, but less than 3 years	600
More than 3 years	600
(v) Loss assets	376
(c) Provide 35% of the profit towards provision for taxation.	
(d) Transfer 25% of the profit to Statutory Reserve.	

(Study Material)

Question 68

The following are the figures extracted from the books of New Generation Bank Limited as on 31.3. 2013.

	₹
Interest and discount received	37,05,738
Interest paid on deposits	20,37,452
Issued and subscribed capital	10,00,000
Salaries and allowances	2,00,000
Directors fee and allowances	30,000
Rent and taxes paid	90,000
Postage and telegrams	60,286
Statutory reserve fund	8,00,000

	₹
Commission, exchange and brokerage	1,90,000
Rent received	65,000
Profit on sale of investments	2,00,000
Depreciation on bank's properties	30,000
Statutory expenses	40,000
Preliminary expenses	25,000
Auditor's fee	5,000

The following further information is given:

- (i) A customer to whom a sum of ₹ 10 lakhs has been advanced has become insolvent and it is expected only 50% can be recovered from his estate.
- (ii) There were also other debts for which a provision of ₹ 1,50,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31.3. 2012 was ₹ 12,000 and on 31.3. 2013 was ₹ 16,000.
- (iv) Provide ₹ 6,50,000 for Income-tax.
- (v) The directors desire to declare 10% dividend.

Prepare the Profit and Loss account of New Generation Bank Limited for the year ended 31.3.2013 and also show, how the Profit and Loss account will appear in the Balance Sheet, if the Profit and Loss account opening balance was Nil as on 31.3. 2012.

(Study Material)

Question 69

Following information is furnished to you by Sound Bank Ltd. for the year ended 31st March, 2013

	(₹ in thousands)
Interest and discount - (Income)	8,860
Interest on public deposits – (Expenditure)	2,720
Operating expenses	2,662
Other incomes	250
Provisions and contingencies (it includes provision in respect of Non-performing Assets (NPAs) and tax provisions)	2,004
Rebate on bills discounted to be provided for as on 31.3. 2013	30
Classification of Advances:	
Standard Assets	5,000
Sub-standard Assets	1,120
Doubtful Assets – fully unsecured	200
Doubtful assets – fully secured	
Less than 1 year	50
More than 1 year but less than 3 years	300
More than 3 years	300
Loss assets	200

You are required to prepare:

- (i) Profit and Loss Account of the Bank for the year ended 31st March, 2013.
- (ii) Provision in respect of advances.

(Study Material)

Question 70

From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2013:

	₹		₹
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other Income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional information:

- (a) Rebate on bills discounted to be provided for ₹ 15,000
- (b) Classification of advances:

	₹
Standard Assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	
For 1 year	25,000
For 2 year	50,000
For 3 year	1,00,000
For 4 year	75,000
Loss Assets	1,00,000

- (c) Make Tax Provision @ 35 %
- (d) Profit and Loss A/c (Cr.) ₹ 40,000.

Give schedule relating to Interest earned only.

(Study Material)

Question 71

From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2013. Also give necessary Schedules.

	Figures are in ₹ thousands
Interest earned on term loans	17.26
Interest earned on term loans classified as NPA	4.52
Interest received on term loans classified as NPA	2.04
Interest on cash credits and overdrafts	38.54
Interest earned but not received on cash credit and overdraft treated as NPA	8.39
Interest on deposits	27.20

	Figures are in ₹ thousands
Commission	1.97
Profit on sale of investments	11.76
Profit on revaluation of investments	2.76
Income from investments	15.53
Salaries, bonus and allowances	18.75
Rent, taxes and lighting	1.70
Printing and stationary	0.75
Director's fees, allowances expenses	1.33
Law charges	0.22
Repairs and maintenance	0.18
Insurance	0.30
Other information:	
Make necessary provision on risk assets:	
(i) Sub-standard	15.00
(ii) Doubtful for one year	7.00
(iii) Doubtful for two years	2.40
(iv) Loss assets	0.65
(v) Investments	3700

Bank should not keep more than 25% of its investments as 'held-for-maturity' investment. The market value of its best 75% investments is ₹ 9,00,000 as on 31st March, 2013.

(Study Material)

Question 72

The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-2013:

	₹
Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors Fees and allowances	35,000
Rent and taxes paid	1,00,000
Postage and telegrams	65,340
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	72,000
Profit on sale of investment	2,25,800
Depreciation on assets	40,000
Statutory expenses	38,000
Preliminary expenses	30,000
Auditor's fee	12,000

The following further information is given:

- (1) A customer to whom a sum of ₹ 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.
- (2) There was also other debts for which a provisions of ₹ 2,00,000 was found necessary.
- (3) Rebate on bill discounted on 31-03-2012 was ₹ 15,000 and on 31-03-2013 was ₹ 20,000.
- (4) Income tax of ₹ 2,00,000 is to be provided.

The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-2013 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-2012

(Study Material)

Question 73

From the following information, prepare Profit and Loss A/c of Dimple Bank as on 31-3-2013:

₹ '000 2011-12	Item	₹ '000 2012-13
14,27	Interest and Discount	20,45
1,14	Income from investment	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 Deposits	8,22
1,27	Interest to RBI	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 Reserve.

(Study Material)

Question 74

From the following information, prepare Profit and Loss A/c of KC Bank for the year ended 31st March, 2013:

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
Commission on letters of credit	1,18
Commission on government business	82
Profit on sale of land and building	27
Loss on exchange transactions	52
Interest paid on deposit	27,20
Auditors' fees and allowances	1,20
Directors' fees and allowances	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
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	8,20	4,00
Overdraft	450	1,00
Term Loans	750	2,50

(ii) Classification of Advances	('000 ₹)
Standard	30,00
Sub-standard	11,20
Doubtful assets not covered by security	2,00
Doubtful assets covered by security for one year	50
Loss Assets	2,00
(iii) Investments	27,50

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment. The market value of its rest 75% investment is ₹ 19,75,000 as on 31-3-2013.

(Study Material)

Question 75

From the following information calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of Zed Bank Ltd. for the year ended 31.3.2007:

	(₹ in '000)
Interest and Discount (includes interest accrued on investments)	8,860
Other Income	220
Interest expended	2,720
Operating expenses	2,830
Interest accrued on Investments	10
Additional Information:	
(a) Rebate on bills discounted to be provided for	30
(b) Classification of Advances:	
(i) Standard assets	4,000
(ii) Sub-standard assets	2,240
(iii) Doubtful assets – (fully unsecured)	390
(iv) Doubtful assets – covered fully by security	
Less than 1 year	100
More than 1 year, but less than 3 years	600
More than 3 years	600
(v) Loss assets	376

(c) Provide 35 % of the profit towards provision for Taxation.

Transfer 20 % of the profit to Statutory Reserve.

(May 2005, 16 Marks)

Question 76

From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2009:

	₹		₹
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on Balance with RBI	25,000
Additional information:			
(a) Rebate on bills discounted to be provided for ₹15,000			
(b) Classification of advances:			₹
Standard Assets			25,00,000
Sub-standard Assets			5,60,000
Doubtful Assets not covered by security			2,55,000
Doubtful Assets covered by security			
For 1 year			25,000
For 2 years			50,000
For 3 years			1,00,000
For 4 years			75,000
Loss Assets			1,00,000
(c) Make Tax Provision @35%			
(d) Profit and Loss A/c (Cr.) ₹40,000.			

Question 77

From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2011. Also give necessary Schedules.

	Figures are in ₹ Thousands
Interest earned on Terms Loans	17.26
Interest earned on Term Loans classified as NPA	4.52
Interest Received on Term Loans classified as NPA	2.04
Interest on Cash Credits and overdrafts	38.54
Interest earned but not received on Cash credit and overdraft treated as NPA	8.39
Interest on Deposits	27.20
Commission	1.97
Profit on sale of Investments	11.76
Profit on revaluation of Investments	2.76

	Figures are in ₹ Thousands
Income from Investments	15.53
Salaries Bonus and Allowances	18.75
Rent, Taxes and Lighting	1.70
Printing and Stationary	0.75
Director's fees, allowances expenses	1.33
Law charges	0.22
Repairs and Maintenance	0.18
Insurance	0.30
Other Information:	
Make necessary provision on risk assets:	
(i) Sub-standard	15.00
(ii) Doubtful for one year	7.00
(iii) Doubtful for two years	2.40
(iv) Loss assets	0.65
Investments	3700

Bank should not keep more than 25% of its investments as 'held-for-maturity- investment. The market value of its best 75% investments is ₹ 9,00,000 as on 31st March, 2011.

(May 2011, 16 Marks)

Question 78

The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-2012:

₹

Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors Fees and allowances	35,000
Rent and taxes paid	1,00,000
Postage and telegrams	65,340
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	72,000
Profit on sale of investment	2,25,800
Depreciation on assets	40,000
Statutory expenses	38,000
Preliminary expenses	30,000
Auditor's fee	12,000

The following further information is given:

- (1) A customer to whom a sum of ₹10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.
- (2) There was also other debts for which a provisions of ₹2,00,000 was found necessary.
- (3) Rebate on bill discounted on 31-03-2011 was 115,000 and on 31-03-2012 was ₹20,000.
- (4) Income tax of ₹2,00,000 is to be provided.
- (5) The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-2012 and also show, how the Profit and Loss account will appear in the Balance sheet if the Profit and Loss account opening balance was NIL as on 31-03-2011.

(Study Material)

Question 79

From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2016:

Particulars	₹in Lakhs	Particulars	₹in Lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors Fees and Allowances	50
Interest on Balance with RBI	30	Advertisements	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

	Earned	₹ in lakhs Collected
(i) Interest on NPA is as follows:		
Cash Credit	164	80
Term Loans	90	20
Overdraft	150	50

- (ii) Classification of Non-Performing Advances:
- | | |
|--|----|
| Standard | 60 |
| Sub-standard – fully secured | 22 |
| Doubtful assets – fully unsecured | 40 |
| Doubtful assets covered fully by security: | |
| Less than 1 year | 6 |
| More than 1 year upto 3 years | 3 |
| More than 3 years | 2 |
| Loss | 38 |
- (iii) Investments
- Bank should not keep more than 25% of its investment as 'held- for-maturity' investment; the market value of its rest 75% investment is ₹ 3,95,00,000 as on 31.03.2016.
- (iv) Provide 35% of the profits towards provision for taxation.
- (v) Transfer 20% of the profit to Statutory Reserves.

(May 2016, 10 Marks)

Final Accounts – Balance Sheet

Question 80

How will you disclose the following Ledger balances in the Final accounts of DVD bank:

	₹ in lacs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted & purchased	800

Additional information:

- Included in the current accounts ledger are accounts overdrawn to the extent of ₹ 250 lacs.
- One of the cash credit account of ₹ 10 lacs (including interest ₹ 1 lac) is doubtful.
- 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(Study Material)

Question 81

From the following information, prepare a Balance Sheet of International Bank Ltd. as on 31st March, 2013 giving the relevant schedules and also specify at least four important Principal Accounting Policies:

	₹ in lakhs	
	Dr.	Cr.
Share Capital		198.00
19,80,000 Shares of ₹ 10 each		
Statutory Reserve		231.00
Net Profit Before Appropriation		150.00
Profit and Loss Account		412.00
Fixed Deposit Account		517.00
Savings Deposit Account		450.00
Current Accounts	28.00	520.12
Bills Payable		0.10
Cash credits	812.10	
Borrowings from other Banks		110.00
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 Loan	792.88	
	2,588.22	2,588.22

Additional Information:

Bills for collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debt	55,000
Depreciation charges—Premises	1,10,000
Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured. Also calculate cash reserves required and statutory liquid reserves required.

Note: Cash reserves required 5.50% of demand and time liabilities; liquid reserves required 24% of demand and time liabilities.

(Hints: Balance sheet total ₹ 25,88.12 lacs)

(Study Material)

Question 82

From the following information, prepare a Balance Sheet of ADT International Bank as on 31st March, 2013 giving the relevant schedules and also specify at least four important Principal Accounting Policies:

₹ in lakhs

	Dr.	Cr.
Share Capital 19,80,000 Shares of ₹ 10 each		198.00
Statutory Reserve		231.00
Net Profit before Appropriation		150.00
Profit and Loss Account		412.00
Fixed Deposit Account		517.00
Savings Deposit Account		450.00
Current Accounts	28.00	520.12
Bills Payable		0.10
Cash credits	812.10	
Borrowings from other Banks		110.00
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 Loan	792.88	
	2,588.22	2,588.22

Additional Information:

Bills for collection	18,10,000
Acceptances and endorsements	14,12,000
Claims against the Bank not acknowledged as debt	55,000
Depreciation charges—Premises	1,10,000
Furniture	78,000

50% of the Term Loans are secured by Government guarantees. 10% of cash credit is unsecured.

(Study Material)

Question 83

The following are the ledger balances (in Rupees thousands) extracted from the books of Vaishnavi Bank as on March 31, 2013:

	Dr.	Cr.
Share Capital		19,00,00
Current accounts control		9,70,00
Employee security deposits		74,20
Investments in Govt. of India Bonds	9,43,70	
Gold Bullion	1,51,30	
Silver	20,00	
Constituent liabilities for acceptances and endorsements		
Borrowings from banks	5,65,00	5,65,00
Building		7,72,30
Furniture	6,50,00	
Money at call and short notice	50,00	
Commission & brokerage	2,60,00	2,53,00
Saving accounts		1,50,00
Fixed deposits		2,30,50
Balances with other banks	4,63,50	
Other investments	5,56,30	
Interest accrued on investments	2,46,20	
Reserve Fund		14,00,00
P & L A/c		65,00
Bills for collection	4,35,00	4,35,00
Interest		6,20,00
Loans	18,10,00	
Bills discounted	1,25,00	
Interest	79,50	
Discounts		4,20,00
Rents		6,00
Audit fees	50,00	
Depreciation reserve (furniture)		2,00
Salaries	2,12,00	
Rent, rates and taxes	1,20,00	
Cash in hand and with Reserve Bank	7,50,00	
Miscellaneous income		39,00
Depreciation reserve (building)		8,00
Directors fees	10,00	
Postage	12,50	
Loss on sale of investments	2,00,00	
Branch adjustments	2,00,00	
	79,10,00	79,10,00

Other Information:

The bank's Profit and Loss Account for the year ended and Balance Sheet as on 31st March, 2013 are required to be prepared in appropriate form. Further information (in Rupees thousands) available is as follows —

(a) Rebate on bills discounted to be provided	40,00
(b) Depreciation for the year	
Building	50,00
Furniture	5,00
(c) Included in the current accounts ledger are accounts overdrawn to the extent of 25,00.	
- (Study Material)

Question 84

How will you disclose the following Ledger balances in the Final accounts of DVD bank:

	₹ in lacs
Current accounts	700
Saving accounts	500
Fixed deposits	700
Cash credits	600
Term Loans	500
Bills discounted & purchased	800

Additional information:

- (i) Included in the current accounts ledger are accounts overdrawn to the extent of ₹ 250 lacs.
- (ii) One of the cash credit account of ₹ 10 lacs (including interest ₹ 1 lac) is doubtful.
- (iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

(Study Material)

Miscellaneous

Question 85

Following facts have been taken out from the records of Adarsha Bank in respect of the year ending March 31, 2013:

- (a) On 1-4-2012 Bills for collection were ₹ 7,00,000. During 2012-2013 bills received for collection amounted to ₹ 64,50,000, bills collected were ₹ 47,00,000 and bills dishonoured and returned were ₹ 5,50,500. Prepare Bills for Collection (Assets) A/c and bills for Collection (Liability) A/c.
- (b) On 1-4-2012, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 14,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 44,00,000. Bank honoured acceptances to the extent of ₹ 25,00,000 and client paid off ₹ 10,00,000 against the guaranteed liability. Clients failed to pay ₹ 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other Obligations A/c" as it would appear in the General ledger.

- (c) It is found from the books, that a loan of ₹ 6,00,000 was advanced on 30-9-2012 @ 10 per cent p.a. interest payable half yearly; but the loan was outstanding as on 31-3-2013 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 10,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 as per the Stock Exchange information as on 30th Sept., 2012). But due to fluctuations, the price fell to ₹ 40 per share in January, 2013. On 31-3-2013, the price as per Stock Exchange rate was ₹ 82 per share. State how you would classify the loan as secured/unsecured in the Balance Sheet of the Company.
- (d) The following balances are extracted from the Trial Balance as on 31-3-2013:

	Dr. ₹	Cr. ₹
Interest and Discounts		98,00,000
Rebate for bills discounted		20,000
Bills discounted and purchased	4,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2012-2013 amount to ₹ 14,000. Prepare Ledger Accounts.

(Study Material)

Question 86

Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015:

- (i) On 1-4-2014 Bills for collection were ₹ 10,15,000. During 2014-15 bills received for collection amounted to ₹ 89,75,000, bills collected were ₹ 64,50,000 and bills dishonoured and returned were ₹ 11,25,000.
Prepare Bills for collection (Assets) Account and bills for Collection (Liability) Account.
- (ii) On 1-4-2014, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 27,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 67,50,000. Bank honoured acceptances to the extent of ₹ 44,50,000 and client paid off ₹ 15,00,000 against the guaranteed liability. Clients failed to pay ₹ 4,00,000 which the Bank had to pay.
Prepare the "Acceptances, Endorsements and other obligations Account" as it would appear in the General Ledger.
- (iii) It is found from the books that a loan of ₹ 50,00,000 was advanced on 30.09.2014 @ 14% p.a. Interest payable half yearly; but the loan was outstanding as on 31.3.2015 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 1,00,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 per share as per the Stock Exchange information as on 30th September 2014) But due to fluctuations, the price fell to ₹ 45 per share in January, 2015. On 31.3.2015, the price as per Stock Exchange rate was ₹ 85 per share.
State how would you classify the loan as secured/unsecured in the Balance Sheet of the Company.

- (iv) The following balances are extracted from the Trial Balance as on 31.3.2015:

	Dr. (₹)	Cr. (₹)
Interest and Discounts		98,00,000
Rebate for bills discounted		45,000
Bills discounted and purchased	5,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2014-15 amount to ₹ 24,000. Prepare ledger accounts.

(May, 2015, 12 Marks)

Question 87

From the following facts drawn from the records of Honest Bank for the year ended 31st March, 2015, prepare the accounts as mentioned below:

- (i) On 1st April, 2015 Bills for Collection were ₹ 28,00,000. During 2014-15, bills received for collection were ₹ 2,58,00,000. Bills collected were ₹ 1,88,00,000. Bills dishonoured and returned were ₹ 22,00,000.

Prepare Bills for Collection (Assets) Account and Bills for Collection (Liability) Account.

- (ii) On 1st April, 2014, Acceptance, Endorsement etc. not yet satisfied amounted to ₹58,00,000. During the year, Acceptances, Endorsements, Guarantees etc. were ₹1,76,00,000. The Bank honoured acceptances of ₹1,00,00,000 and a client paid ₹40,00,000 against guaranteed liabilities. The Bank paid ₹4,00,000 which clients failed to pay.

Prepare "Acceptances, Endorsements and Other Obligations Account" in the General Ledger.

- (iii) A loan of ₹ 24,00,000 advanced by the Bank on 30th August, 2014 @ 10% per annum, whose interest is payable half-yearly. The loan was outstanding as on 31st March, 2015. Nothing was paid either towards Principal or Interest of this loan. The security for the loan was 40,000 fully paid shares of ₹ 100 each. The shares were quoted on the stock exchange on 30th September, 2014 at ₹ 90 per share. Due to fluctuations, the price fell to ₹ 50 per share in January, 2015. On 31st March, 2015 the share price quoted on the stock exchange was ₹ 96 per share.

State giving reasons, whether the loan would be classified as secured or unsecured in the Balance Sheet of the Company as on 31st March, 2015.

- (iv) The following balances were taken from the Trial Balance as on 31st March, 2015.

	Dr (₹)	Cr (₹)
Interest & Discounts		3,92,00,000
Rebate for Bill Discounted		80,000
Bills Discounted & Purchased	16,00,000	

Proportionate discounts not yet earned for Bills to mature in 2014-15 were ₹ 56,000.

Prepare the following Accounts:

- (a) Rebate on Bills Discounted Account
(b) Interest and Discount Account

(November, 2016, 10 Marks)

Theory

Question 88

Write short notes on Slip system of posting and double voucher system.

(Study Material)

Question 89

What are the restrictions imposed by the Banking Regulations Act, 1949 on payment of dividend in case of banking companies?

(Study Material)

Question 90

Write short note on Classification of investments by a banking company.

(Study Material)

Question 91

Write short note on Non-Performing Assets.

(Study Material)

Question 92

Write short note on Classification of advances in the case of a Banking Company.

(Study Material)

Question 93

Mention the condition when a cash credit overdraft account is treated as 'out of order'.

(Study Material)

Question 94

What is the percentage of NPA provision to be made by banks in respect of fully secured doubtful advances of more than 3 years old?

(November 2007, 2 Marks)

Question 95

Mention the condition when a cash credit overdraft account is treated as 'out of order'.

(May 2010, 2 Marks)

Question 96

Specify the conditions when cash credit overdraft account is treated as "Out of order"?

(November 2015, 4 Marks)

Question 97

Write short note on classification of advances in case of Banking Company.

(May 2016, 4 Marks)

MCQs

1. A banking company can pay dividend on its shares
 - (a) After writing off all its capitalized expenses including preliminary expenses.
 - (b) After charging depreciation on its investments.
 - (c) After charging bad debts where adequate provisions has been made to the satisfaction of the auditor.
 - (d) Before charging depreciation on its investments and writing off all its capitalized expenses.
2. On 1.4.20X1 Bills for collection were ₹ 10,000. During 20X1-20X2 bills received for collection amounted to ₹ 1,00,000, bills collected were ₹ 80,000 and bills dishonoured and returned were ₹ 5,000. What will be the amount of bills for collection (assets) account as on 31.3.20X2?
 - (a) 25,000.
 - (b) 30,000.
 - (c) 35,000.
 - (d) None of the above.
3. Rebate on bill discounted is shown in the
 - (a) Assets side of the balance sheet.
 - (b) Liabilities side of the balance sheet.
 - (c) Income side of the income statement.
 - (d) Expense side of the income statement.
4. Bills for collection are shown
 - (a) On Assets side of the balance sheet.
 - (b) On liabilities side of the balance sheet.
 - (c) On the income side of the income statement.
 - (d) As note below the balance sheet.
5. What percentage of provision is required on standard assets?
 - (a) 10
 - (b) 40
 - (c) 0.40
 - (d) 25.
6. As per the Banking Regulations Act, 1949, a bank can engage in the following banking business
 - (a) Borrowing and raising of money.
 - (b) Dealing in bills of exchange, hundies, promissory notes etc.
 - (c) Carrying on and transacting every kind of guarantee and indemnity business.
 - (d) All of the above.

7. When income is to be recognized on cash basis by Safe Trust Bank, a distinction should be made between
 - (a) Banking and Non-banking assets.
 - (b) Monetary and Non-banking assets.
 - (c) Current and Non-current assets.
 - (d) Performing and Non-performing assets.
8. For the year ended 31st March, 20X1 non-performing assets classified as sub-standard in Centura Bank Ltd. will be classified as doubtful after
 - (a) 24 months.
 - (b) 18 months.
 - (c) 12 months.
 - (d) 180 days.

Answers

1. (a), 2. (a), 3. (b), 4. (d), 5. (c), 6. (d), 7. (d), 8. (c)

APPENDIX**Schedule III**

(Section 29)

FORM A

Form of Balance Sheet

Balance sheet of _____ (enter name of banking company)

Balance sheet as on 31st March _____ (years)

(000's omitted)

<i>Capital and Liabilities</i>	<i>Schedule</i>	<i>As on 31.3.20__ (Current year)</i>	<i>As on 31.3.20__ (Previous year)</i>
Capital	1		
Reserve and surplus	2		
Deposits	3		
Borrowings	4		
Other liabilities and provisions	5		
	Total:		
ASSETS			
Cash and balances with			
Reserve Bank of India	6		
Balances with banks and			
Money at call and short notice	7		
Investments	8		
Advances	9		
Fixed assets	10		
Other assets	11		
	Total:		
Contingent liabilities	12		
Bill for collection			

Schedule 1**Capital**

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
1. For nationalized Banks Capital (Full owned by Central Govt.)		
2. For Bank Incorporated Outside India (i) Capital (the amount brought in by banks by way of start-up-capital as prescribed by RBI should be shown under this head) (ii) Amount of deposit kept with the RBI under section 11(2) of the Banking Regulation Act, 1949		
Total:		
3. For Other Banks Authorized Capital (_____ shares of ₹_____ each) Issued Capital (_____ shares of ₹_____ each) Subscribed Capital (_____ shares of ₹_____ each) Called-up Capital (_____ shares of ₹_____ each) Less: Calls unpaid Add: Forfeited shares		

Schedule 2
Reserves and Surplus

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
1. Statutory reserves Opening Balance Additions during the year Deductions during the year		
2. Capital Reserves Opening Balance Additions during the year Deductions during the year		
3. Share premium Opening balance Additions during the year Deductions during the year		

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
4. Revenue and other reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
5. Balance in Profit and Loss Account		
Total: (1 + 2 + 3 + 4 + 5)		

Schedule 3
Deposits

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
A. I. Demand deposits		
(i) From Banks		
(ii) From others		
II. Savings bank deposits		
III. Term deposits		
(i) From banks		
(ii) From others		
Total: (I + II + III)		

Schedule 4
Borrowings

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
I. Borrowings in India		
(i) Reserve Bank of India		
(ii) Other Banks		
(iii) Other institutions and agencies		
II. Borrowings outside India		
Total: (I + II)		
Secured borrowings included in I and II above – ₹		

Schedule 5
Other liabilities and provisions

	<i>As on 31.3.20__</i> <i>(Current year)</i>	<i>As on 31.3.20__</i> <i>(Previous year)</i>
I. Bills Payable		
II. Inter-office adjustments (net)		
III. Interests accrued		
IV. Other (including provisions)		
Total:		

Schedule 6
Cash and balances with Reserve Bank of India

	<i>As on 31.3.20__</i> <i>(Current year)</i>	<i>As on 31.3.20__</i> <i>(Previous year)</i>
Cash in hand (including foreign currency notes)		
Balances with Reserve Bank of India		
(i) in current account		
(ii) in other accounts		
Total: (I + II)		

Schedule 7
Balances with banks and money at call and short notices

	<i>As on 31.3.20__</i> <i>(Current year)</i>	<i>As on 31.3.20__</i> <i>(Previous year)</i>
I. In India		
(i) Balance with banks		
(a) in current accounts		
(b) in other deposits accounts		
(ii) Money at call and short notice		
(a) with banks		
(b) with other institutions		
Total: (I + II)		

Schedule 8
Investments

	<i>As on 31.3.20__</i> <i>(Current year)</i>	<i>As on 31.3.20__</i> <i>(Previous year)</i>
I. Investments in India in		
(i) Government securities		
(ii) Other approved securities		

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
(iii) Shares		
(iv) Debentures and Bonds		
(v) Subsidiaries and/or joint ventures		
(vi) Others (to be specified)		
Total:		
II. Investments outside India in		
(i) Government securities (including local authorities)		
(ii) Subsidiaries and/or joint ventures abroad		
(iii) Other investments (to be specified)		
Total:		
Grand total: (I + II)		

Schedule 9**Advances**

Term	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
A. (i) Bills purchased and discounted		
(ii) Cash credits, overdrafts and loans repayable on demand		
(iii) Term loans		
Total:		
B. (i) Secured by tangible assets		
(ii) Covered by bank/government guarantees		
(iii) Unsecured		
Total:		
C.I. Advances in India		
(i) Priority sector		
(ii) Public sector		
(iii) Banks		
(iv) Others		
Total:		

Schedule 10**Fixed Assets**

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
I. Premises		
At cost on 31st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
II. Other fixed assets (including furniture and fixtures)		
At cost as on 31st March of the Preceding year		
Addition during the year		
Deduction during the year		
Depreciation to date		
Total: (I + II)		

Schedule 11**Other assets**

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
(I) Inter-office adjustment (net)		
(II) Interest accrued		
(III) Tax paid in advance/tax deducted at source		
(IV) Stationery and stamps		
(V) Non-banking assets acquired in satisfaction of claims		
(VI) Others		
Total:		

Schedule 12**Contingent liabilities**

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantee given on behalf of constituents (a) in India (b) outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is Contingently liable		
Total:		

Form B
Profit and loss account for the year ended on 31st march ____ (year)

	Schedule No.	Year ended on 31.3.20____ (Current year)	Year ended on 31.3.20____ (Previous year)
1. Income			
Interest earned		13	
Other income		14	
Total			
2. Expenditure			
Interest expended		15	
Operating expenses		16	
Provisions and contingencies			
Total			
3. Profit/Loss			
Net profit/loss (-) for the year			
Profit/loss (-) brought forward			
Total			
4. Appropriations			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to government/ Proposed dividend			
Balance carried over to balance sheet			
Total			

Schedule 13
Interest earned

	As on 31.3.20____ (Current year)	As on 31.3.20____ (Previous year)
(I) Interest/discount on advance/bills		
(II) Income on investments		
(III) Interest on balances with reserves Bank of India and other inter-bank funds		
(V) Others		
Total:		

Schedule 14
Other income

	<i>As on 31.3.20__ (Current year)</i>	<i>As on 31.3.20__ (Previous year)</i>
(I) Commission, exchange and brokerage		
(II) Profit on sale of investments <i>Less: Loss on sale of investments</i>		
(III) Profit on revaluation of investments <i>Less: Loss on revaluation of investments</i>		
(IV) Profit on sale of land, buildings and other assets <i>Less: Loss on sale of land, buildings and other assets</i>		
(V) Profit on exchange transactions <i>Less: Loss on exchange transactions</i>		
(VI) Income earned by way of dividends, etc. from subsidiaries/companies and/or joint ventures abroad/in India		
(VII) Miscellaneous income		
Total:		

Schedule 15
Interest expended

	<i>As on 31.3.20__ (Current year)</i>	<i>As on 31.3.20__ (Previous year)</i>
(I) Interest on deposits		
(II) Interest on Reserve Bank of India/Inter bank borrowings		
(III) Others		
Total:		

Schedule 16
Operating expenses

	As on 31.3.20__ (Current year)	As on 31.3.20__ (Previous year)
(I) Payment to and provision of employees		
(II) Rent, taxes and lighting		
(III) Printing and stationery		
(IV) Advertisement and publicity		
(V) Depreciation on bank's property		
(VI) Auditors' fees, allowances and expenses		
(VII) Law charges		
(IX) Postages, Telegrams, Telephones etc.		
(X) Repairs and maintenance		
(XI) Insurance		
(XII) Other expenditure		
Total:		

Prudential Norms on Capital Adequacy

CAPITAL FUNDS

1. Capital funds of Indian Banks

- (a) Would include the following elements:

2. Elements of Tier 1 capital

- (a) (i) Paid-up capital statutory reserves, other disclosed free reserves, if any.
(ii) Capital reserves representing surplus arising out of sale proceeds of assets.
- (b) Equity investment in subsidiaries, intangible assets and losses in the current period and those brought forward from previous period, should be deducted from Tier 1 capital.
- (c) Banks which have introduced Voluntary Retirement Scheme. VRS related Deferred Revenue Expenditure would not be reduced from Tier 1 capital.

3. Elements of Tier II Capital

- (a) (i) Undisclosed reserves and cumulative perpetual preference shares. Cumulative perpetual preference shares should be fully paid-up.
(ii) Consider revaluation reserves at a discount of 55 percent while determining their value for inclusion in Tier II.
(iii) *General Provision and loss reserves*: General provisions/loss reserves will be admitted up to a maximum of 1.25 percent of total risk weighted assets.

- (iv) Hybrid debt capital instruments
 - (v) *Subordinated debt*: Should be fully paid-up, unsecured, subordinated to the claims of other creditors, free of restrictive clauses, and should not be redeemable at the initiative of the holder, without the consent of the Reserve Bank of India they often carry a fixed maturity, and as they approach maturity, they should be subjected to progressive discount, for inclusion in Tier II capital. Subordinated debt instruments eligible to be reckoned as Tier II capital will be limited to 50 percent of Tier I capital.
- (b) Discount at the rates shown below:

<i>Remaining Maturity of Instruments</i>	<i>Rate of Discount (%)</i>
Less than one year	100
One year and more than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

- (c) Tier II elements should be limited to a maximum of 100 percent of total Tier I elements for the purpose of compliance with the norms.

4. Minimum Requirement of Capital Fund

- (a) CRAR of 12 percent on an ongoing basis.

NEW GUIDELINES OF INVESTMENTS

As per new guidelines, both SLRs and non SLR securities are to be divided in 3 categories viz, (a) Held to maturity, (b) Available for sale, and (c) Held for trading. The new guidelines are effective from half year ended September 30, 2000. Category (a) is like old permanent category and (b) and (c) are like current category. The investments under held to maturity should not exceed 25% of bank's total investment. The bank have the freedom to decide on extent of holdings under 'available for sale' and 'held for trading' category.

As per para 1 of new guidelines, securities acquired by the banks with the intention to trades by taking advantage of short term price/interest rate movement is classified under 'Held for trading'. The remaining securities are classified under the category 'available for sale'. The securities held for trading to be sold within 90 days. The profit/loss on sale of securities 'held to maturity' is to be transferred to profit and loss account. The profit is subsequently transferred to capital Reserve Account. The profit/loss account on sale of investment in remaining two categories is taken to profits loss account.

The securities need to maturity need to be marked to market. The remaining two categories are marked to market.

AMENDMENT

Rates of Provisioning for Non-Performing Assets and Restructured Advances are summarized as follows:

Category of Advances	Existing Rate (%)	Revised Rate (%)
Sub-standard Advances		
• Secured Exposures		15
• Unsecured Exposures		25
Doubtful Advances—		100
Unsecured Portion		
Doubtful Advances—		
Secured Portion		
• For Doubtful upto 1 year		25
• For Doubtful > 1 year and upto 30 years		40
• For Doubtful > 3 years		100
Loss Advances		100

Liquidation

PREFERENTIAL CREDITORS

Question 1

A company went into liquidation whose creditors are ₹ 36,000. This amount of ₹ 36,000 includes ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months, immediately before the date of winding up, ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for the previous 6 months, Rent for godown for the last six months amounting to ₹ 3,000; Income-tax deducted out of salaries of employees ₹ 1,000. In addition it is estimated that the company would have to pay ₹ 3,000 as compensation to an employees for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

(Study Material)

Question 2

A company went into liquidation whose creditors are ₹36,000 includes ₹6,000 on account of wages of 15 men at ₹100 per month for 4 months immediately before the date of winding up; ₹9,000 being the salaries of 5 employees at ₹300 per month for the previous 6 months, Rent for godown for the last six months amounting to ₹3,000; Income-tax deducted out of salaries of employees ₹1,000 and Directors fees ₹500; in addition it is estimated that the company would have to pay ₹5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors

(November 2010, 4 Marks)

Question 3

XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 5 crores. The company owes following amounts to others:

- ✓ Dues to workers – ₹ 1,25,00,000
- ✓ Taxes Payable to Government – ₹ 30,00,000
- ✓ Unsecured Creditors – ₹ 60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only ₹ 4,00,00,000/-

(Study Material)

STATEMENT OF AFFAIRS

Question 4

'A' Ltd is to be liquidated. Their summarised Balance Sheet as at 30th September, 2012 appears as under:

	₹
Liabilities:	
50,000 equity shares of ₹ 100 each	50,00,000
Secured debentures (on Land and Buildings)	20,00,000
Unsecured loans	40,00,000
Trade creditors	70,00,000
	1,80,00,000
Assets:	
Land and buildings	10,00,000
Other fixed assets	40,00,000
Current assets	90,00,000
Profit and loss account	40,00,000
	1,80,00,000
Contingent liabilities are:	
For bills discounted	2,00,000
For excise duty demands	3,00,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:

	₹
Land and Building	22,00,000
Other fixed assets	36,00,000
Current assets	70,00,000

Taking the above into account, prepare the statement of affairs.

(Study Material)

Question 5

X Ltd. was ordered to be wound up on March 31st, 2011 on which date its summarized balance sheet was as follows:

Liabilities	₹	Assets	₹
Subscribed Capital :			
10,000 shares of ₹ 100 each	10,00,000	Goodwill	1,00,000
5% Debentures 1,60,000		Building	3,50,000
Interest Accrued <u>4,000</u>	1,64,000	Plant	5,50,000

Liabilities	₹	Assets	₹
(Secured by floating charge on all assets)		Fixtures	23,000
Bank Overdraft	25,000	Stock	38,000
(Secured by hypothecation of stock)		Debtors	25,000
Trade payables	36,000	Cash	500
		P & L A/c	1,38,500
Total	12,25,000	Total	12,25,000

The amounts estimated to be realised are : Goodwill ₹ 1,000; Building ₹ 3,00,000; Plant ₹ 5,25,000; Fixtures ₹ 10,000; Stock ₹ 31,000; Debtors ₹ 20,000.

Creditors included ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months immediately before the date of winding up : ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for the previous 6 months; Rent for godown for the last six months amounting to ₹ 3,000; Income-tax deducted out of salaries of employees ₹ 1,000 and Directors Fees ₹ 500.

Three years ago, the debit balance in the Profit and Loss Account was ₹ 77,925 and since that date the accounts of the company have shown the following figures:

	Year 31-3-2009 ₹	Year 31-3-2010 ₹	Year 31-3-2011 ₹
Gross Profit	65,000	45,000	40,000
Wages and Salaries	40,500	36,000	34,400
Electricity and Water Tax	5,750	6,380	5,260
Debentures interest	8,000	8,000	8,000
Bad Debts	8,540	7,600	6,700
Depreciation	6,700		
Directors' Fees	1,000	1,000	1,000
Miscellaneous Expenses	10,500	7,265	7,980
Total	80,990	66,245	63,340

In addition it is estimated that the company would have to pay ₹ 5,000 as compensation to an employee for injuries suffered by him which was contingent liability not accepted by the company. Prepare the Statement of Affairs and the Deficiency account in Form 57 of Companies (Court) Rules, 1959.

(Study Material)

Question 6

From the following particulars, prepare a Statement of Affairs and the Deficiency Account for submission to the official liquidator of the Equipment Ltd., which went into liquidation on December 31, 2012:

	₹	₹
3,000 equity shares of 100 each, ₹ 80 paid-up		2,40,000
6% 1,000 preference shares of ₹ 100 each fully paid-up		
Less : Calls in arrear	1,00,000	
5% Debentures having a floating charge on the assets (interest paid upto June 30, 2012)	(5,000)	95,000
		1,00,000

	₹	₹
Mortgage on Land & Buildings		80,000
Trade Creditors		2,65,500
Owing for wages		20,000
Secretary's salary (@ ₹ 500 p.m.) owing		3,000
Managing Director's salary (@ ₹ 1,500 p.m.) owing		6,000

Assets	Estimated to produce	Book value
	₹	₹
Land & Building	1,30,000	1,20,000
Plant	1,30,000	2,00,000
Tools	4,000	20,000
Patents	30,000	50,000
Stock	74,000	87,000
Investments in the hands of a Bank for an overdraft of ₹ 1,90,000	1,70,000	1,80,000
Book Debts	60,000	90,000

On 31st December, 2007 the balance sheet of the company showed a general reserve of ₹ 40,000 accompanied by a debit balance of ₹ 25,000 in the Profit & Loss Account.

In 2008 the company made a profit of ₹ 40,000 and declared a dividend of 10% on equity shares. The company suffered a total loss of ₹ 1,09,000 besides loss of stock due to fire of ₹ 40,000 during 2009, 2010 and 2011. For 2012 accounts were not made.

The cost of winding up is expected to be ₹ 15,000.

(Study Material)

Question 7

X Co. Ltd. went into voluntary liquidation on 1st April, 2011. The following balances are extracted from its books on that date:

	₹		₹
Capital		Machinery	90,000
24,000 Equity Shares of ₹ 10 each	2,40,000	Leasehold properties	1,20,000
Debentures (Secured by Floating charge)	1,50,000	Stock	3,000
Bank overdraft	54,000	Debtors	1,50,000
Creditors	60,000	Investments	18,000
		Cash in hand	3,000
		Profit and loss account	1,20,000
	5,04,000		5,04,000

The following assets are valued as under:

	₹
Machinery	1,80,000
Leasehold properties	2,18,000
Investments	12,000
Stock	6,000
Debtors	1,40,000

The bank overdraft is secured by deposit of title deeds of leasehold properties. There were preferential creditors amounting ₹ 3,000 which were not included in creditors ₹ 60,000.

Prepare a statement of affairs to be submitted to the meeting of members/creditors.

(Study Material)

Question 8

Insol Ltd. is to be liquidated. Their summarised Balance Sheet as at 30th September, 2012 appears as under:

Liabilities:	₹
2,50,000 equity shares of ₹ 10 each	25,00,000
Secured debentures (on land and buildings)	10,00,000
Unsecured loans	20,00,000
Trade creditors	35,00,000
	90,00,000
Assets:	
Land and Building	5,00,000
Other fixed assets	20,00,000
Current assets	45,00,000
Profit and Loss A/c	20,00,000
	90,00,000
Contingent liabilities are :	
For bills discounted	1,00,000
For excise duty demands	1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:—

Land & Buildings	11,00,000
Other fixed assets	18,00,000
Current assets	35,00,000

Taking the above into account, prepare the statement of affairs.

(Study Material)

Question 9

From the following particulars, prepare a Statement of Affairs and the Deficiency Account for submission to official liquidator of Sun City Development Ltd., which went into liquidation on 31st March, 2016.

Liabilities	(₹)	(₹)
6,00,000 Equity shares of ₹ 10 each, ₹ 8 paid-up		48,00,000
6% 2,00,000 Preference shares of ₹ 10 each	20,00,000	
Less: Call in arrear	(1,00,000)	19,00,000
5% Debentures having a floating charge on the assets (interest paid up to 30th September, 2015)		20,00,000
Mortgage on Land & Building		16,00,000
Trade Payable		53,10,000
Wage Payable		4,00,000
Secretary's Salary Payable @ ₹ 10,000 p.m.		60,000
Managing Director's Salary Payable @ ₹ 30,000 p.m.		1,20,000

Assets	Estimated to produce (₹)	Book value (₹)
Land & Building	26,00,000	24,00,000
Plant & Machinery	26,00,000	40,00,000
Tools & Equipments	80,000	4,00,000
Patents & Copyrights	6,00,000	10,00,000
Inventories	14,80,000	17,40,000
Investments in the hand of a Bank for an Overdraft of ₹ 38,00,000	34,00,000	36,00,000
Trade Receivables	12,00,000	18,00,000

On 31st March, 2011 the Balance Sheet of the Company showed a General Reserve of ₹ 8,00,000 accompanied by a debit balance of ₹ 5,00,000 in the Profit & Loss Account.

In 2012 the Company made a profit of ₹ 8,00,000 and declared a dividend of 10% on Equity Shares.

The Company suffered a total loss of ₹ 21,80,000 besides loss of stock due to fire to the tune of ₹ 8,00,000 during financial years ending March 2013, 2014 and 2015. For the financial year ended 31st March, 2016, accounts were not made.

The cost of winding-up is expected to be ₹ 3,00,000.

(May 2016, 16 Marks)

LIQUIDATOR REMUNERATION

Question 10

- (a) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors, in toto.
- (b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation Expenses	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(Study Material)

Question 11

A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 45,00,000 against which payment was made as follows:

Liquidation expenses	₹ 50,000
Secured Creditors	₹ 15,00,000
Preferential Creditors	₹ 1,25,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(May, 2015, 4 Marks)

LFSA

Question 12

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.

(Study Material)

Question 13

The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2 % on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of ₹ 100 each fully paid up.

50,000 Equity shares of ₹ 10 each fully paid up.

30,000 Equity shares of ₹ 10 each, ₹ 8 paid up.

Assets realized ₹ 20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	₹
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized ₹ 3,20,000)	3,50,000
Debenture holders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of ₹ 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

(Study Material)

Question 14

The summarized Balance Sheet of Full Stop Limited as on 31st March 2013, being the date of voluntary winding up is as under:

Liabilities	(₹)	Assets	(₹)
Share capital:		Land & building	5,20,000
5,000, 10% Cumulative		Plant & machinery	7,80,000
Preference shares of ₹ 100 each	5,00,000	Inventory in trade	3,25,000
fully paid up		Book debts	10,25,000
Equity share capital:		Profit & loss account	5,50,000
5,000 Equity shares of ₹ 100 each			
₹ 60 per share called and paid up	3,00,000		
5,000 Equity shares of ₹ 100 each			
₹ 50 per share called up and			
paid up	2,50,000		
Securities premium	7,50,000		
10% Debentures	2,10,000		
Preferential creditors	1,05,000		
Bank overdraft	4,85,000		
Trade creditors	6,00,000		
	32,00,000		32,00,000

Preference dividend is in arrears for three years. By 31-03-2013, the assets realized were as follows:

	₹
Land & building	6,20,000
Inventory in trade	3,10,000
Plant & machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are ₹ 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹ 67,000. Assuming that the final payments were made on 31-03-2013, prepare the Liquidator's Statement of Account.

(Study Material)

Question 15

The following is the Balance Sheet of Y Limited as at 31st March, 2012:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets :	
2,000 Equity shares of ₹ 100 each ₹ 75 per share paid up	1,50,000	Land & Buildings	4,00,000
6,000 Equity shares of ₹ 100 each ₹ 60 per share paid up	3,60,000	Plant and Machineries	3,80,000
2,000 10% Preference Share of ₹ 100 each fully paid up	2,00,000	Current Assets :	
10% Debentures (having a floating charge on all assets)	2,00,000	Inventory at cost	1,10,000
Interest accrued on Debentures (also secured as above)	10,000	Trade receivables	2,20,000
Sundry Creditors	4,90,000	Cash at Bank	60,000
	14,10,000	Profit and Loss A/c	2,40,000
			14,10,000

On that date, the company went into Voluntary Liquidation. The dividends on preference shares were in arrear for the last two years. Sundry Creditors include a loan of ₹ 90,000 on mortgage of Land and Buildings. The assets realised were as under:

	₹
Land and Buildings	3,40,000
Plant & Machineries	3,60,000
Inventory	1,20,000
Trade receivables	1,60,000

Interest accrued on loan on mortgage of buildings upto the date of payment amounted to ₹ 10,000. The expenses of Liquidation amounted to ₹ 4,600. The Liquidator is entitled to a remuneration of 3% on all the assets realised (except cash at bank) and 2% on the amounts distributed among equity shareholders. Preferential creditors included in sundry creditors amount to ₹ 30,000. All payments were made on 30th June, 2012. Prepare the liquidator's final statement of account.

(Hints: Payment to Equity shareholders ₹ 35,000 (₹ 17.50 per share on 2,000 shares) & ₹ 15,000 (₹ 2.50 per share on 6,000 shares))

(Study Material)

Question 16

M. Ltd. resolved on 31st December 2010 that the company be wound up voluntarily. The following was the trial balance extracted from its books as on that date:

	₹	₹
Equity shares of ₹ 10 each		2,00,000
9% Preference shares of ₹ 10 each		1,00,000
Plant (less depreciation w/o ₹ 85,000)	2,15,000	
Stock in trade	2,50,000	
Trade receivables	55,000	
Trade payables		75,000
Bank balance	74,000	
Preliminary Expenses	6,000	
Profit & Loss A/c (balance on 1st January, 2010)		30,000
Trading loss for the year 2010	24,000	
Preference dividend for the year 2010	6,000	
Outstanding Expenses (including mortgage interest)		25,000
4% Mortgage loan		2,00,000
Total	6,30,000	6,30,000

On 1st January, 2011 the liquidator sold to N Ltd. Plant for ₹ 2,05,000 and stock in trade for ₹ 2,00,000. The sale was completed in January, 2011 and the consideration satisfied as to ₹ 2,62,200 in cash and as to the balance in 6% Debentures of the purchasing company issued to the liquidator at a premium of 2%.

The remaining steps in the liquidation were as follows:

- (1) The liquidator realised ₹ 52,000 out of the book debts and the cost of collection amounted to ₹ 2,000.
- (2) The loan mortgage was discharged on 31st January, 2011 along with interest from 31st July, 2010. Creditors were discharged subject to 2% and outstanding expenses excluding mortgage interest were settled for ₹ 2,000;
- (3) On 30th June 2011 six month's interest on debentures was received from N Ltd.
- (4) Liquidation expenses amounting to ₹ 3,000 and liquidator's remuneration of 3% on disbursements to members were paid on 30th June, 2011 when:
 - (a) The preference shareholders were paid out in cash; and
 - (b) The debentures on N Ltd. and the balance of cash were distributed ratably among the equity shareholders.

Prepare the Liquidator's Statement of Account showing the distribution.

(Study Material)

Question 17

Prakash Processors Ltd. went into voluntary liquidation on 31st December, 2010 when their Balance Sheet read as follows:—

Liabilities	₹
Issued and subscribed capital :	
5,000 10% cumulative preference shares of ₹ 100 each, fully paid	5,00,000
2,500 equity shares of ₹ 100 each, ₹ 75 paid	1,87,500
7,500 equity shares of ₹ 100 each, ₹ 60 paid	4,50,000
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
Creditors	3,18,750
	17,43,750
Assets	
Land and Building	2,50,000
Machinery and Plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Trade receivables	2,75,000
Cash at Bank	75,000
Profit and Loss A/c	2,81,250
	17,43,750

Preference dividends were in arrears for 2 years and the creditors included Preferential creditors of ₹ 38,000.

The assets realised as follows:

Land and Building ₹ 3,00,000; Machinery and Plant ₹ 5,00,000; Patents ₹ 75,000; Stock ₹ 1,50,000; Trade receivables ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 27,250. The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures is made on 30th June, 2011 show the liquidator's Statement of Account.

(Study Material)

Question 18

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.

(November 2014, 16 Marks)

Question 19

From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account.

- (i) Cash with liquidators (after all assets are realized and secured creditors and debentureholders are paid) is ₹7,50,000.
- (ii) Preferential creditors to be paid ₹35,000.
- (iii) Other unsecured creditors ₹2,30,000.
- (iv) 5,000, 10% preference shares of ₹100 each fully paid.
- (v) 3,000 equity shares of ₹100 each, ₹75 per share paid up.
- (vi) 7,000 equity shares of ₹100 each ₹60 per share paid up.
- (vii) Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors

(June 2009, 8 Marks)

Question 20

From the following Trial Balance of PQ Ltd. on 31.12.2009, prepare liquidators' final statement of account:

	₹	₹
9% Preference share capital (1,250 Preference shares @ ₹100 each fully paid up)	----	1,25,000
Equity share capital:		
2,000 Equity shares @ ₹100 each fully paid up	---	2,00,000
2,000 Equity shares @ ₹100 each, ₹50 paid up	----	1,00,000
Plant	3,00,000	
Stock-in-trade	3,60,000	
Sundry debtors	85,000	---
Sundry creditors	---	2,21,000
Bank balance	1,20,000	
Preliminary expenses	6,000	---
6% Mortgage loan	----	2,30,000
Outstanding liabilities for expenses	---	25,000
Profit and loss account (Trading loss for the year 2009)	30,000	
	9,01,000	9,01,000

Following points should be kept in mind:

- (i) On 21st January, 2010 the liquidator of PQ Ltd. sold plant for ₹2,95,000 and stock in trade at 10% less than the book value. He realised 80% of Sundry debtors and incurred cost of collection of ₹1,850 (remaining debtors are to be treated as bad).
- (ii) The loan mortgage was discharged on 31st January, 2010 along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding expenses paid at 20% less.
- (iii) Preference share dividend is due for one year and paid with final payment.

- (iv) Liquidation expenses incurred are ₹1,800 and liquidators remuneration is settled at 4% on disbursement to members (excluding preference dividend), subject to minimum of ₹10,000.

(May 2010, 8 Marks)

Question 21

The summarized Balance Sheet of Full Stop Limited as on 31st March 2011, being the date of voluntary winding up is as under:

Liabilities	(₹)	Assets	(₹)
Share capital:		Land & building	5,20,000
5,000, 10% Cumulative		Plant & machinery	7,80,000
Preference shares of ₹100		Stock in trade	3,25,000
each fully paid up	5,00,000	Book debts	10,25,000
Equity share capital:		Profit & loss account	5,50,000
5,000 Equity shares of ₹100			
each ₹60 per share called and paid up	3,00,000		
5,000 Equity shares of ₹100			
each ₹50 per share called up and paid up	2,50,000		
Securities premium	7,50,000		
10% Debentures	2,10,000		
Preferential creditors	1,05,000		
Bank overdraft	4,85,000		
Trade creditors	6,00,000		
	32,00,000		32,00,000

Preference dividend is in arrears for three years. By 31-03-2011, the assets realized were as follows:

	₹
Land & building	6,20,000
Stock in trade	3,10,000
Plant & machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are ₹86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹67,000. Assuming that the final payments were made on 31-03-2011, prepare the Liquidator's Statement of Account.

(May 2011, 8 Marks)

RECEIVER STATEMENT

Question 22

The summarized Balance Sheet of Vasant Ltd. as on 31st March, 2013, 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 paid up	1,00,000	Profit and Loss Account	35,000
5,000 Equity Shares of ₹ 10 each, ₹ 8 per share paid up	40,000	Debenture issue expenses not written off	2,000
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, 2011 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.

(Study Material)

Question 23

The following is the Balance Sheet of Confidence Builders Ltd., as at 30th Sept. 2012:

Liabilities	₹	Asset	₹
Share Capital		Land and Buildings	1,20,000
Issued : 11% Pref. Shares of ₹ 10 each	1,00,000	Sundry Current Assets	3,95,000
10,000 equity shares of ₹ 10 each, fully paid up	1,00,000	Profit and Loss Account	38,500
5,000 equity shares of ₹ 10 each, ₹ 7.50 per share paid up	37,500	Debenture Issue expenses not written off	2,000
13% Debentures	1,50,000		
Mortgage Loan	80,000		
Bank Overdraft	30,000		
Creditors for Trade	32,000		

Liabilities		₹	Asset	₹
Income-tax arrears: (assessment concluded in July 2012)				
Assessment year 2010-2011	21,000			
Assessment year 2011-2012	5,000	26,000		
		5,55,500		5,55,500

Mortgage loan was secured against land and buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver for the Debenture holders brought the land and buildings to auction and realised ₹ 1,50,000. He also took charge of Sundry assets of value of ₹ 2,40,000 and realised ₹ 2,00,000. The Bank Overdraft was secured by a personal guarantee of two 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 ₹ 2,000 and by the Liquidator ₹ 2,800. The Receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 30th September 2010 and interest for the last half year was due to the debenture holders. Rest of the assets were realised at ₹ 1,00,000.

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

(Study Material)

Question 24

The summarised Balance Sheet of Vasant Ltd. as on 31st March, 2013, 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 paid up	1,00,000	Profit and Loss Account	35,000
5,000 Equity Shares of ₹ 10 each, ₹ 8 per share paid up	40,000	Debenture issue expenses not written of	2,000
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 & Buildings. 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 realised ₹ 1,60,000. He also took charge of Sundry Assets of value of

₹2,36,000 and realised ₹ 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 realised by him. Preference Shareholders has not been paid dividend for period after 31st March, 2011 and interest for the last half year was due to the Debentureholders. Rest of the assets were realised at ₹ 1,50,000.

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

(November 2013, 16 Marks)

Question 25

The summarized Balance Sheet of M/s. X Limited as at 31st March, 2016 are as follows:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Shareholders Fund:</u>		<u>Non-Current Assets</u>	
Share Capital		Land & Building	6,50,000
50,000 equity shares of		<u>Current Assets</u>	
₹ 10 each fully paid	5,00,000	Sundry Current Assets	21,80,000
75,000; 10% Preference	7,50,000		
Shares of ₹ 10 fully paid up			
25,000 Equity Shares of ₹ 10	2,00,000	Debenture issue expenses	10,000
each, ₹ 8 per share paid up		not written-off	
Profit & Loss Account	(1,75,000)		
<u>Non-Current Liabilities:</u>			
13% Debentures	7,50,000		
Mortgage Loan	3,50,000		
<u>Current Liabilities:</u>			
Bank Overdraft	1,50,000		
Trade Creditors	1,90,000		
Income Tax Arrears			
(Assessment completed in	1,25,000		
February, 2016)			
	28,40,000		28,40,000

Mortgage loan was secured against Land and Building. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the Debenture Holders appointed a Receiver for the Debenture Holders. He bought the Land & Building to auction and realized ₹ 8,00,000. He also took charge of Sundry Assets of value of ₹11,80,000 and realized ₹ 10,00,000. 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. Cost incurred by the receiver were ₹ 9,750 and by the Liquidator ₹15,000. 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, 2014 and interest for the last half year was due to Debenture Holders. Rest of the Assets were realized at ₹ 7,50,000.

Prepare the Accounts to be submitted by the Receiver and Liquidator.

(November, 2016, 16 Marks)

B LIST

Question 26

Pessimist Ltd. has gone into liquidation on 10th May, 2013. The details of members, who have ceased to be members, within the year ended 31st March, 2013 are given below. The debts that could not be paid out of realisation of assets and contribution from present members ('A' contributories) are also given with their date-wise break up. Shares are of ₹ 10 each, ₹ 6 per share paid up.

You are to determine the amount realisable from each person.

Shareholders	No. of shares transferred	Date of transfer	Proportionate unpaid debts
P	1,000	20.04.2012	3,000
Q	1,200	15.05.2012	5,000
R	1,500	18.09.2012	9,200
S	800	24.12.2012	10,500
T	500	12.03.2013	11,000

(Study Material)

Question 27

Liquidation of YZ Ltd. commenced on 2nd April, 2013. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2012 and 2013:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2012	₹ 5,000
P	1,500	1st May, 2012	₹ 3,300
Q	1,000	1st October, 2012	₹ 4,300
R	500	1st November, 2012	₹ 4,600
S	300	1st February, 2013	₹ 6,000

All the shares were of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

(Study Material)

Question 28

M/s. ABC Limited has gone into liquidation on 25th June, 2012. Certain creditors could not receive payments out of realization of assets and contributions from A list contributories. The following are the details of certain transfers which took place in the year ended 31st March, 2012:

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of transfer (₹)
P	4,000	10-5-2011	9,000
Q	3,000	22-7-2011	12,000
R	2,400	15-9-2011	13,500
S	1,600	14-12-2011	14,000
T	1,000	09-03-2012	14,200

All the shares are of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realized from the persons listed above. Ignore remuneration to liquidator and other expenses.

(Study Material)

Question 29

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	No. of Shares transferred	Amount due to creditors on the date of transfer
	2010		₹
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, 2010 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, 2011 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:

- pay the amount due as "present" member contributories;
- do not pay the amount due as "present" member contributories.

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

(Hints: Liability of Q, R/X, S and U will be ₹ 2,174, ₹ 3,666, ₹ 5,830 and ₹ 18,330 respectively.)

(Study Material)

Question 30

In a liquidation which commenced on April 2, 2011 certain creditors could not receive payments out of the realisation of assets and out of the contributions from "A" list contributories. The following are the details of certain transfers, which took place in 2010 and 2011.

Shareholders	Number of shares transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding
X	1,500	1st March 2010	4,000
A	1,000	1st May 2010	6,000
B	1,500	1st July 2010	7,500
C	300	1st Nov. 2010	8,000
D	200	1st Feb. 2011	9,500

All the shares were ₹ 10 each, ₹ 6 paid up ignoring expenses of and remuneration to liquidators, etc., show the amount to be realised from the various persons listed above.

(Study Material)

Question 31

Liquidation of YZ Ltd. commenced on 2nd April, 2013. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2012 and 2013:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2012	₹ 5,000
P	1,500	1st May, 2012	₹ 3,300
Q	1,000	1st October, 2012	₹ 4,300
R	500	1st November, 2012	₹ 4,600
S	300	1st February, 2013	₹ 6,000

All the shares were of ₹ 10 each, ₹ 8 per share paid up. Show the amount to be realised from the various persons listed above ignoring expenses and remuneration to liquidator etc.

Question 32

M/s. ABC Limited has gone into liquidation on 25th June, 2011. Certain creditors could not receive payments out of realization of assets and contributions from A list contributories. The following are the details of certain transfers which took place in the year ended 31st March, 2011:

Shareholders	No. of shares transferred	Date of ceasing to be a member	Creditors remaining unpaid and outstanding on the date of transfer (₹)
P	4,000	10-5-2010	9,000
Q	3,000	22-7-2010	12,000
R	2,400	15-9-2010	13,500
S	1,600	14-12-2010	14,000
T	1,000	09-03-2011	14,200

All the shares are of ₹10 each, ₹8 per share paid up. Show the amount to be realized from the persons listed above. Ignore remuneration to liquidator and other expenses.

(November 2011, 8 Marks)

THEORY

Question 33

Explain Overriding preferential payments under section 326 of the Companies Act, 2013.

(Study Material)

Question 34

B List of Contributories and the liability of contributories included in the list.

(Study Material)

Question 35

What are the contents of "Liquidators' statement of account"? How frequently does a liquidator have to submit such statement?

(Study Material)

Question 36

What is B list contributories?

(November 2008, 4 Marks)

Question 37

What are the contents of "Liquidators' statement of account"?

(November 2015, 4 Marks)

Question 38

Write the LISTS which should accompany the Statement of Affairs, in case of a winding up by Court.

(November 2015, 4 Marks)

Consolidated Financial Statements

Question 1

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of ₹ 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

	₹ in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(Study Material)

Question 2

Variety Ltd. holds 46% of the paid-up share capital of VR Ltd. The shares were acquired at a market price of ₹ 17 per share. The balance of shares of VR Ltd. are held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

- The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalising the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 30 lakhs, ₹ 40 lakhs and ₹ 65 lakhs.
- The actual cost of the shares to the foreign company was ₹ 5,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd. will pay it to the Government.

- (c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after two years.

The above agreement was approved by all concerned for being given effect to on 1.4.2017. The total assets of VR Ltd. as on 31.3.2017 was ₹ 1,00,00,000. It was decided to write down fixed assets by ₹ 1,75,000. Current liabilities of VR Ltd. as on the same date were ₹ 20,00,000. The paid-up share capital of VR Ltd. was ₹ 20,00,000 divided into 2,00,000 equity shares of ₹ 10 each.

Find out goodwill/capital reserve to Variety Ltd. on acquiring wholly the shares of VR Ltd.

(Study Material)

Question 3

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, ₹ 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

(Study Material)

Question 4

H Ltd. acquired 3,000 shares in S Ltd., at a cost of ₹4,80,000 on 1.7.2016. The capital of S Ltd. consisted of 5,000 shares of ₹ 100 each fully paid. The Profit & Loss Account of this company for 2016 showed an opening balance of ₹1,25,000 and profit for the year was ₹ 3,00,000. At the end of the year, it declared a dividend of 40%. Record the entry in the books of H Ltd., in respect of the dividend.

Assume calendar year as financial year.

(Study Material)

Question 5

From the following data, determine in each case:

- (1) Minority interest at the date of acquisition and at the date of consolidation.
- (2) Goodwill or Capital Reserve.
- (3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2016		31.12.2016	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
			₹	₹	₹	₹	₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

(Study Material)

Question 6

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹ 1,40,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹ 1,00,000 and the balance in the Profit & Loss Account was ₹ 60,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹ 20,000 and at year end, declared and paid a dividend of ₹ 30,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2016 and 31st December, 2016?

(Study Material)

Question 7

From the following summarized balance sheets of H Ltd. and its subsidiary S Ltd. drawn up at 31st March, 2017, prepare a consolidated balance sheet as at that date, having regard to the following:

- (i) Reserves and Profit and Loss Account of S Ltd. stood at ₹25,000 and ₹ 15,000 respectively on the date of acquisition of its 80% shares by H Ltd. on 1st April, 2016.
- (ii) Machinery (Book-value ₹ 1,00,000) and Furniture (Book value ₹ 20,000) of S Ltd. were revalued at ₹ 1,50,000 and ₹ 15,000 respectively on 1st April, 2016 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Summarised Balance Sheet of H Ltd. as on 31st March, 2017

	H Ltd.	S. Ltd.	Assets	H Ltd.	S Ltd.
	₹	₹		₹	₹
Equity and Liabilities			Non-current assets		
Shareholders' funds			Fixed assets		
Share Capital			Machinery	3,00,000	90,000
Shares of ₹ 100 each	6,00,000	1,00,000	Furniture	1,50,000	17,000
Reserves	2,00,000	75,000	Other non-current assets	4,40,000	1,50,000
Profit and Loss			Non-current Investments		
Account	1,00,000	25,000	Shares in S Ltd.:		
Trade Payables	1,50,000	57,000	800 shares at ₹ 200 each	1,60,000	—
	10,50,000	2,57,000		10,50,000	2,57,000

(Study Material)

Question 8

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	<u>1,000</u>	<u>200</u>
	<u>6,000</u>	<u>1,200</u>
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	<u>100</u>	<u>50</u>
	<u>2,400</u>	<u>700</u>
Profit before tax	3,600	500
Provision for tax	<u>1,200</u>	<u>200</u>
Profit after tax	2,400	300
Dividend paid	<u>1,200</u>	<u>150</u>
Balance of Profit	<u>1,200</u>	<u>150</u>

Other Information:

H Ltd. sold goods to S Ltd. of ₹ 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹ 24 lacs. Administrative expenses of S Ltd. include ₹ 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹ 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹ 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

Prepare a consolidated profit and loss account.

(ICAI Solution is Wrong) (Study Material)

Question 9

The Trial Balances of H Ltd. and S Ltd. as on 31.12.2016 were as under:

	H Ltd.		S Ltd.	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Equity Share Capital (Share of ₹ 100 each)		10,00,000		2,00,000
7% Preference Share Capital (Share of ₹ 100 each)		—		2,00,000
Reserves		3,00,000		1,00,000
6% Debentures		2,00,000		2,00,000
Trade Payables/Trade Receivables	80,000	90,000	50,000	60,000
P&L A/c balance		20,000		15,000
Purchases/Sales	5,00,000	9,00,000	6,00,000	9,50,000
Wages & Salaries	1,00,000	—	1,50,000	
Debenture Interest	12,000		12,000	
General Expenses	80,000		60,000	
Preference-Dividend up to 30.6.2016				
Inventory (31.12.2016)		3,500	7,000	
Cash at Bank	1,00,000		50,000	
Investment in S Ltd.	13,500		6,000	
Fixed Assets	5,28,000		—	
	<u>11,00,000</u>		<u>7,90,000</u>	
	<u>25,13,500</u>	<u>25,13,500</u>	<u>17,25,000</u>	<u>17,25,000</u>

Investment in S Ltd. were acquired on 1.4.2016 and consisted of 80% of Equity Capital and 50% of Preference Capital. Depreciation on fixed assets is written off @ 10% p.a (computed on the basis of useful life. After acquiring control over S Ltd., H Ltd. supplied to it goods at cost plus 20%, the total invoice value of such goods being ₹ 60,000; 1/4 of such goods were still in Inventory at the end of the year.

Prepare the Consolidated Profit and Loss Account for the year ended on 31.12.2016.

(ICAI Solution is Wrong) (Study Material)

Question 10

Consider the following summarized balance sheets of subsidiary B Ltd.:

	2015 ₹	2016 ₹		2015 ₹	2016 ₹
Share-Capital			Fixed Assets		
Issued & subscribed			Cost	3,20,000	3,20,000
5,000 equity shares			Less: Accumulated		
of ₹100 each	5,00,000	5,00,000	depreciation	(48,000)	(96,000)
Reserves & Surplus				2,72,000	2,24,000
Revenue reserves	2,86,000	7,14,000	Investments at cost	—	4,00,000
Current Liabilities &			Current Assets:		
Provisions:			Inventory	5,97,000	7,42,000
Trade Payables	4,90,000	4,94,000	Trade Receivables	5,94,000	8,91,000
Bank overdraft	—	1,70,000	Prepaid Expenses	72,000	48,000
Provision for taxation	3,10,000	4,30,000	Cash at Bank	51,000	3,000
	<u>15,86,000</u>	<u>23,08,000</u>		<u>15,86,000</u>	<u>23,08,000</u>

Also consider the following information:

- B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.
- A Ltd. values inventory on LIFO basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹12,000 at the end of 2015 and ₹ 34,000 at the end of 2016.
- Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.
- B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 2015 and ₹ 30,000 in 2016, being part of initial advertising expenditure of ₹ 90,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2015.

Restate the balance sheet of B Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

(Study Material)

Question 11

Consider the following summarized balance sheets:

	A Ltd. (As on 31st March, 2017)	B Ltd. (As on 31st December, 2016)		A Ltd. (As on 31st March, 2017)	B Ltd. (As on 31st December, 2016)
	₹	₹		₹	₹
Share Capital (Shares of ₹ 10 each)	10,00,000	5,00,000	Fixed Assets	6,50,000	4,05,000
Reserves and Surplus	4,50,000	2,05,000	Investment: 40,000 Shares		
Secured Loan: 13% Debentures (₹100 each)	—	3,00,000	in B Ltd. 1,000 Debentures in B Ltd.	8,00,000	—
Current Liabilities:			Current Assets:	1,50,000	—
Trade payables	3,80,000	80,000	Inventory	2,00,000	3,50,000
Other liabilities	2,00,000	40,000	Trade Receivables	1,50,000	2,65,000
			Cash and Bank	80,000	1,05,000
	20,30,000	11,25,000		20,30,000	11,25,000

On 5th January 2017, certain inventory of B Ltd. costing ₹ 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim.

On 20th January, 2017, A Ltd. sold goods to B Ltd. costing ₹ 1,50,000 at an invoice price of cost plus 20%.

50% of those goods were resold by B Ltd. to A Ltd. within 31st March, 2017 (these were then sold by A Ltd. to a third party before 31st March, 2017). As on 31st March, 2017, B Ltd. owes ₹ 60,000 to A Ltd. In respect of those goods. Pre- acquisition profits of B Ltd. were ₹ 75,000. Prepare consolidated balance sheet as on 31st March, 2017 after making necessary adjustments in the balance sheet of B Ltd.

(Study Material)

Practical Questions

Question 12

A Ltd. acquired 1,600 ordinary shares of ₹100 each of B Ltd. on 1st July, 2016. On 31st December, 2016 the summarized balance sheets of the two companies were as given below:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Capital (Shares of ₹ 100 each fully paid)	5,00,000	2,00,000	Land & Buildings	1,50,000	1,80,000
			Plant & Machinery	2,40,000	1,35,000
Reserves	2,40,000	1,00,000	Investment in B Ltd. at cost	3,40,000	—
Profit & Loss A/c	57,200	82,000	Inventory	1,20,000	36,400
Bank Overdraft	80,000	—	Trade Receivable	59,800	40,000
Trade Payable	47,100	17,400	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 January, 2016 out of which a dividend of 10% was paid on 1st August, 2016; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 2016 was considered as worth ₹ 1,80,000 on 1st July, 2016; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as on 31st December, 2016.

(Study Material)

Question 13

On 31st March, 2011, 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 each fully paid	15,00,000	Fixed Assets	10,50,000
Pre-incorporation profits	30,000	Current Assets	6,45,000
Profit and Loss Account	60,000		
Trade payables	1,05,000		
	16,95,000		16,95,000

On 31st March, 2017 the summarized Balance Sheets of two companies were as follows:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000	Fixed Assets	79,20,000	23,10,000
Securities Premium	9,00,000	—	1,05,000 equity shares in Q Ltd. at cost	12,00,000	—
Pre-incorporation profits	—	30,000	Current Assets	44,10,000	17,55,000
General Reserve	60,00,000	19,05,000			
Profit and Loss Account	15,75,000	4,20,000			
Trade payables	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 31st March, 2017 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, 2017 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

- Before issue of bonus shares.
- 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.

(Study Material)

Question 14

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. ₹ in lakhs	S Ltd. ₹ in lakhs
Share Capital: Authorized		
Issued and Subscribed:	<u>15,000</u>	<u>6,000</u>
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	—
	21,387	9,208

Assets	H Ltd. ₹ in lakhs	S Ltd. ₹ in lakhs
Land and Buildings	2,718	—
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	—
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	—
	21,387	9,208

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
- On 1st May 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.
- On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
- On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.

(Study Material)

Question 15

A Ltd. acquired 70% of equity shares of B Ltd. as on 1st January, 2010 at a cost of ₹10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹80,000. Both the companies follow calendar year as the accounting year. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015 and 2016, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively.

Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

Question 16

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	6,00,000	2,00,000
Reserves and surplus	1,00,000	1,50,000
Non-Current Liabilities	2,00,000	2,00,000
Current Liabilities	4,00,000	3,00,000
Total	13,00,000	8,50,000
Non-Current Assets		
Fixed Assets	3,00,000	3,00,000
Investment in 100% Share of S Ltd. Purchased on 31-03-2015	3,50,000	
Current Assets	6,50,000	5,50,000
Total	13,00,000	8,50,000

Share were purchased as on 31.03.2015. Prepare Consolidated Balance Sheet.

Question 17

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	10,00,000	5,00,000
Reserves and surplus	5,00,000	4,00,000
Current Liabilities	2,00,000	1,00,000
Total	17,00,000	10,00,000
Investment in 90% Share of S Ltd.	9,50,000	
Other Assets	7,50,000	10,00,000
Total	17,00,000	10,00,000

Share were purchased as on 31.03.2015. Prepare Consolidated Balance Sheet.

Question 18

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	20,00,000	12,00,000
Reserves and surplus	9,00,000	6,00,000
Current Liabilities	3,00,000	2,00,000
Total	32,00,000	20,00,000
Investment in 90% Share of S Ltd.	10,00,000	
Other Assets	22,00,000	20,00,000
Total	32,00,000	20,00,000

Share were purchased as on 31.03.2015. Prepare Consolidated Balance Sheet.

Question 19

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Equity Share Capital	7,00,000	8,00,000
Reserves and surplus	15,00,000	2,00,000
Current Liabilities	3,00,000	1,00,000
Total	25,00,000	11,00,000
Investment in 80% Share of S Ltd.	8,20,000	
Current Assets	16,80,000	11,00,000
Total	25,00,000	11,00,000

Share were purchased as on 31.03.2015. Prepare Consolidated Balance Sheet.

Question 20

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	15,00,000	10,00,000
Reserves and surplus	2,00,000	1,00,000
Current Liabilities	3,00,000	1,00,000
Total	20,00,000	12,00,000
Investment in 70% Share of S Ltd.	7,50,000	
Current Assets	12,50,000	12,00,000
Total	20,00,000	12,00,000

H Ltd. had purchased share in S Ltd. on 01.04.2014 when Balance in Reserve & Surplus of S Ltd. Were ₹ 4,000/-. Prepare Consolidated Balance Sheet of group on 31.03.2015

Question 21**Balance Sheet 31.3.2012**

<i>Equity & Liabilities</i>	H	S
<i>Shareholder Funds</i>		
Share capital	2,00,000	1,00,000
Profit & Loss a/c	70,000	30,000
<i>Current Liabilities</i>		
Creditors	60,000	20,000
	3,30,000	1,50,000
	H	S
<i>Non Current Assets</i>		
Fixed Assets	1,00,000	1,20,000
Investment 60%	1,90,000	—
<i>Current Assets</i>	40,000	30,000
	3,30,000	1,50,000

H Ltd. Purchase Investment on 1-4-2011 when Balance in Profit & Loss a/c of S Ltd. was ₹18,000.

Prepare consolidated Balance Sheet

Question 22**Balance Sheet as on 31.3.2015**

<i>Equity & Liabilities</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
<i>Shareholder Funds</i>		
Equity Share Capital (₹10)	100,000	50,000
Profit & Loss A/c	80,000	50,000
<i>Current Liabilities</i>		
Creditors	85,000	140,000
	265000	240,000
<i>Non Current Assets</i>	<i>H Ltd.</i>	<i>S Ltd.</i>
Fixed Assets	100,000	80,000
Investment in S 70%	75,000	—
<i>Current Assets</i>	90,000	160,000
	265000	240,000

Investments were purchased on 1.10.2014 balance as 1.4.2014 in P & L A/cs was ₹40,000. Prepare Consolidated Balance sheet.

Question 23

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	10,00,000	8,00,000
Reserves and Surplus	6,00,000	4,00,000
Creditors	2,00,000	1,00,000
Total	18,00,000	13,00,000
Fixed Assets	5,00,000	6,00,000
Investment 80% Share of S Ltd.	11,00,000	
Current Assets	2,00,000	7,00,000
Total	18,00,000	13,00,000

H Ltd. had purchased share in S Ltd. on 01.04.2014 when Balance in Profit & Loss of S Ltd. was ₹ 2,50,000/- S Ltd. distributed Dividend on 01/10/2014 @ 10%. H Ltd. credited dividend to its Profit & Loss Account. Prepare Consolidated Balance Sheet.

Question 24

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital	20,00,000	16,00,000
Profit & Loss	3,00,000	2,00,000
General Reserves	1,00,000	2,00,000
Creditors	6,00,000	5,00,000
Total	30,00,000	25,00,000
Fixed Assets	5,00,000	8,00,000
Goodwill	1,00,000	50,000
Investment in S Ltd. 60%	11,00,000	
Current Assets	13,00,000	16,50,000
Total	30,00,000	25,00,000

H Ltd. had purchased shares in S Ltd. on 01.01.2013. for ₹11,00,000/-. Balance in Profit & Loss and General Reserve on 01.04.2012 was ₹ 1,20,000/- each in S Ltd.

S Ltd. Paid	Date	Type	Rate
	01-10-2012	Final	10%

Prepare Consolidated Balance Sheet.

Question 25

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital (₹ 10)	10,00,000	9,00,000
Reserves and Surplus:		
General Reserves	2,00,000	1,00,000
Profit & Loss	3,00,000	2,00,000
Non-Current Liabilities	3,00,000	3,00,000
Current Liabilities	1,00,000	1,00,000
Total	19,00,000	16,00,000
Non-Current Assets		
Fixed Assets	4,00,000	6,00,000
Investment in share of S Ltd.	3,00,000	
Current Assets	12,00,000	10,00,000
Total	19,00,000	16,00,000

H Ltd. had purchased 50,000 shares of S Ltd. on 01.10.2013. Balance in Profit & Loss and General Reserve of S Ltd. was ₹ 1,50,000/- and ₹ 90,000/- respectively on 01.04.2013.

S Ltd. had distributed Bonus @ 1 shares for 8 held on 31.03.2014.

S Ltd. paid Dividend	Date	Rate
	01-11-2013	10%
	01-10-2014	12%

All dividends were credited to Profit & Loss of H Ltd. Prepare Consolidated Balance Sheet.

Question 26

Following are Balance Sheet of H Ltd. and its subsidiary S Ltd. on 31st March, 2015:

Balance Sheet
as on 31st March 2015

	<i>H Ltd.</i>	<i>S Ltd.</i>
Share Capital (₹ 10)	7,00,000	5,00,000
Reserves and Surplus	6,00,000	4,00,000
Current Liabilities	3,00,000	3,00,000
Total	16,00,000	12,00,000
Fixed Assets	7,50,000	8,00,000
Investment in share of S Ltd.	5,00,000	
Current Assets	3,50,000	4,00,000
Total	16,00,000	12,00,000

H Ltd. held 30,000 shares of S Ltd. H Ltd. had purchased share of S Ltd. on 01-10-2014. Balance in Reserve & Surplus of S Ltd. on 01-04-2014 was ₹ 3,00,000/-

1. Bonus declared (distributed) ratio 1 : 4 by S Ltd. on 31-03-2015
2. Dividend paid by S Ltd. on 01-01-2015 @ 10%
3. Market Value of Fixed Assets of S Ltd. was increased by ₹ 50,000 on 01-10-2014. Depreciation rate @ 10% p.a. This Adjustment is yet to made in Balance Sheet.

Prepare Consolidated Balance Sheet.

Question 27

On 31st March, 2015, the abridged Balance Sheets of H Ltd. and S Ltd. stood as follows:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Liabilities		
Equity Share Capital - Authorised	5,000	3,000
Issued and subscribed in Equity Shares of 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
	7,129	4,604
Assets:		
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	—
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102
Sundry Advances	260	190
	7,129	4,604

Following Additional Information is available:

- (a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2014 at which date the following balances stood in the books of S Ltd. General Reserve ₹1,500 thousand; Profit and Loss Account ₹633 thousand.
- (b) On 14th July, 2014 S Ltd. declared a dividend of 20% out of pre-acquisition profits and H Ltd. credited the dividend received to its Profit and Loss Account.
- (c) On 1st November, 2014, S Ltd. issued 3 fully paid Equity Shares of 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.
- (d) On 31st March, 2015, the Inventory of S Ltd. included goods purchased for ₹50 thousand from H Ltd., which had made a profit of 25% on Cost.

(e) Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as on 31st March, 2015.

(Practice Manual)

Question 28

On 31st March, 2015 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. (₹ in lakhs)	S Ltd. (₹ in lakhs)
Share Capital:		
Authorised	15,000	6,000
Issued and Subscribed:		
Equity Shares of ₹ 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Trade payables	1,833	1,014
Provision for Taxation	855	394
Payable Dividend	1,200	
	21,387	9,208
Assets	H Ltd. (in lakhs)	S Ltd. (in lakhs)
Land and Buildings	2,718	—
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	—
Inventory	3,949	1,956
Trade receivables	2,960	1,562
Cash and Bank Balances	1,490	204
Sundry Advances	520	—
	21,387	9,208

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2014 when the balances to General Reserve and Profit and Loss Account of S Ltd. stood at ₹ 3,000 lakh and ₹ 1,200 lakh respectively.
- On 31st May, 2014, S Ltd. declared a dividend @ 20% for the year ended 31st March, 2014. H Ltd. credited the dividend received by it to its Profit and Loss Account.
- On 1st January, 2015 S Ltd. issued 3 fully paid-up shares for every 5 shares held as bonus shares out of balances to its general reserve as on 31st March, 2014.
- Details of Trade payables and Trade receivables:

	H Ltd.	S Ltd.
	(₹ in lakhs)	(₹ in lakhs)
Trade payables		
Bills Payable	372	160
Sundry creditors	1,461	854
	1,833	1,014
Trade receivables		
Debtors	2,600	1,363
Bills Receivables	360	199
	2,960	1,562

- On 31st March, 2015 all the bills payable in S Ltd. 's balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
- On 31st March, 2015, S Ltd. 's inventory included goods which it had purchased for ₹ 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2015 bearing in mind the requirements of AS 21.

(Practice Manual)

Question 29

The following are the balance sheets of a Holding Company and Subsidiary Company as at 31.3.1996 and 1997:

Holding Company's Balance Sheet as on 31 March

Liabilities	1996 ₹	1997 ₹	Assets	1996 ₹	1997 ₹
Paid-up capital:			Bank Balance	12,000	30,000
35,000 Shares of ₹ 10 each	3,50,000	3,50,000	Goodwill	50,000	50,000
Sundry Creditors	39,000	35,000	Land and Building at cost	1,10,000	1,10,000
Reserve	41,000	57,000	Machinery less depreciation	80,000	75,000
Profit and Loss Account	67,000	80,000	Stock	40,000	47,000

<i>Liabilities</i>	1996 ₹	1997 ₹	<i>Assets</i>	1996 ₹	1997 ₹
			Sundry Debtors	55,000	60,000
			Investment: 9,000 Shares of ₹ 10 each at cost	1,50,000	1,50,000
	4,97,000	5,22,000		4,97,000	5,22,000

Subsidiary Company's Balance Sheet as on 31 March ...

<i>Liabilities</i>	1996 ₹	1997 ₹	<i>Assets</i>	1996 ₹	1997 ₹
Paid-up Capital: 10,000 shares of ₹ 10 each	1,00,000	1,00,000	Goodwill	40,000	40,000
Sundry Creditors	10,000	10,000	Machinery less depreciation	45,000	42,500
Reserve	17,500	20,500	Stock	25,000	30,000
Profit and Loss Account	12,000	28,500	Sundry Debtors	22,000	32,000
	1,39,500	1,57,000	Bank Balance	7,500	12,500
				1,39,500	1,57,000

The shares in the subsidiary company were acquired on 31 March 1996. No dividend has been declared. Prepare consolidated balance sheet as at 31 March 1997.

Question 30

From the balance sheets given below, prepare a consolidated balance sheet of X Ltd. and its subsidiary company Y Ltd. The interest of minority shareholders in Y Ltd. is to be shown as a separate item in the consolidated balance sheet.

Balance Sheet of X Ltd. as on 31 March 1995

<i>Liabilities</i>	₹	<i>Assets</i>	₹
12,000 Shares of ₹ 10 each	1,20,00	Freehold Building at cost	80,000
General Reserve	25,000	Plant and machinery at cost (40,000) less depreciation	30,000
Profit and Loss Account	12,000	Shares (2000) in subsidiary company at cost	25,000
Trade Creditors	15,000	Stock at cost	10,000
		Trade Debtors	22,000
		Bank	5,000
	1,72,000		1,72,000

Balance Sheet of Y Ltd. as on 31 March 1995

<i>Liabilities</i>	₹	<i>Assets</i>	₹
3,000 Shares of ₹ each	30,000	Leasehold property at cost (₹ 30,000) less depreciation	25,000
General Reserve as on 1-4-1994	6,000	Plant and Machinery at cost (₹ 15,000) less depreciation	10,000
Profit and Loss Account	9,000	Stock at cost	3,000
Trade Creditors	5,000	Trade Debtors	7,000
		Bank	5,000
	50,000		50,000

At the date of acquisition by X Ltd. of its holding of 2,000 shares in Y Ltd. the latter company had a credit balance of ₹ 6,000 in its profit and loss account.

Question 31

The balance sheets of Hindustan Ltd. and Sundram Ltd. as on 31 March 1997 were as under:

<i>Liabilities</i>	<i>Hindustan Ltd.</i> ₹	<i>Sundram Ltd.</i> ₹	<i>Assets</i>	<i>Hindustan Ltd.</i> ₹	<i>Sundram Ltd.</i> ₹
Shares of ₹ 100 each	2,00,000	50,000	Land and Building	60,000	—
General Reserve	30,000	10,000	Plant and Machinery	2,00,000	—
Profit and Loss Account:			Stock	40,000	85,000
Balance on 1.4.1996	40,000	20,000	Sundry Debtors	10,000	30,000
Profit for 1996-97	50,000	25,000	Bank	10,000	10,000
Creditors	30,000	30,000	300 Shares in Sundram Ltd. at cost	65,000	—
Bank overdraft	20,000	—	Bills Receivable	—	10,000
Bills payable	15,000	—			
	3,85,000	1,35,000		3,85,000	1,35,000

Shares were acquired by Hindustan Ltd. as 1 October 1996. Bills receivable held by Sundram Ltd. are all accepted by Hindustan Ltd. Included in the debtors of Sundram Ltd. are ₹ 6,000 owing by Hindustan Ltd. in respect of goods supplied. Prepare consolidated balance sheet.

Question 32

From the following information you are required to prepare a consolidated balance sheet of Karnataka Co. Ltd., and its subsidiary Bangalore Co. Ltd., as on 31.3.1998:

Balance Sheet as on 31.3.1998

<i>Liabilities</i>	<i>Karnataka</i> ₹	<i>Bangalore</i> ₹	<i>Assets</i>	<i>Karnataka</i> ₹	<i>Bangalore</i> ₹
Share Capital:			Fixed Assets		
Shares of ₹ 10	5,00,000	2,00,000	Goodwill	1,00,000	—
Reserve & Surplus:			Plant & Machinery	2,00,000	1,20,000

Liabilities	Karnataka ₹	Bangalore ₹	Assets	Karnataka ₹	Bangalore ₹
General Reserves	2,00,000	60,000	Buildings	2,00,000	1,30,000
Surplus	1,50,000	40,000	Investments in 16,000 Shares of ₹ 10 each at Bangalore Ltd.	2,00,000	—
Secured Loans			Govt. Securities	—	50,000
Against Buildings	—	80,000	Current Assets:		
Unsecured Loans	—	40,000	Stock	80,000	50,000
Current Liabilities & Provisions:			Debtors	1,00,000	40,000
Creditors	1,00,000	60,000	Bills Receivable	50,000	—
Bills Payable	50,000	20,000	Bank	20,000	80,000
			Cash	50,000	30,000
	10,00,000	5,00,000		10,00,000	5,00,000

- (i) Bills Payable of Bangalore Ltd., include ₹ 10,000 due to Karnataka Ltd., which has discounted bills worth ₹ 5,000 with its Banker.
- (ii) Sundry Creditors of Karnataka Co. Ltd. include ₹ 20,000 due to Bangalore Co Ltd.
- (iii) The closing stock of Karnataka Ltd., include stock worth ₹ 60,000 supplied by Bangalore Ltd., which had invoiced to Karnataka Ltd., at cost *plus* 20% profit on cost.
- (iv) On the date of purchase (1.1.1998) of 16,000 shares in Bangalore Ltd., by Karnataka Ltd., the balance sheet of Bangalore Ltd., showed general reserves of ₹ 20,000 and surplus of ₹ 10,000.

Question 33

Jupiter Ltd. purchased control of Neptune Ltd. on 1.10.1997. Following are the balance sheets of two companies as at 31 March 1998:

Liabilities	Jupiter Ltd. ₹	Neptune Ltd. ₹	Assets	Jupiter Ltd. ₹	Neptune Ltd. ₹
Equity Share Capital of ₹ 10 Share	3,60,00	1,80,000	Goodwill	6,000	24,000
General Reserve	36,000	30,000	Land & Building	60,000	60,000
Profit & Loss Account	60,000	60,000	Plant & Machinery	1,20,000	1,08,000
Creditors	60,000	42,000	Stock in trade	70,500	60,000
Bills Payable to Jupiter Ltd.	—	6,000	Debtors	30,000	54,000
Contingent Liability of Jupiter Ltd. for ₹ 9,000 for bills discounted			Investments in 13,500 Shares of Neptune Ltd.	2,02,500	—
			Cash at Bank	27,000	12,000
	5,16,000	3,18,000		5,16,000	3,18,000

Neptune Ltd. had on 1.4.1997 ₹ 30,000 in general reserve and ₹ 36,000 (Cr.) in profit and loss account. 10% dividend was received by Jupiter Ltd. in November from Neptune Ltd. for 1996-978 and this amount was credited to profit and loss Neptune Ltd. at ₹ 1,20,000 on the date of purchase was revalued at ₹ 1,44,000. Stock of Neptune Ltd. includes ₹ 9,600 received from Jupiter Ltd. on which it made a profit of 25% on cost. Prepare the consolidated balance sheet.

Question 34

On 1 October 1998, H. Ltd. acquired 24,000 shares of ₹ 10 each in S. Ltd. at cost of ₹ 3,40,000. The balance sheets of two companies as on 30 June 1999 were as follows:

Liabilities	H. Ltd. ₹	S. Ltd. ₹	Assets	H. Ltd. ₹	S. Ltd. ₹
Share Capital (₹ 10)	15,00,000	4,00,000	Goodwill	5,00,000	1,40,000
General Reserve (as per last year's account)	6,00,000	3,00,000	Land & Building	6,50,00	2,00,000
Profit & Loss Account	4,00,000	1,70,000	Machineries	6,00,000	2,00,000
Sundry Creditors	3,60,000	84,000	Stock	3,00,000	80,000
Bills Payable	1,40,000	1,20,000	Debtors	3,50,000	2,70,000
			Investments	3,40,000	—
			Bills Receivable	1,20,000	60,000
			Cash at Bank	1,40,000	1,24,000
	30,00,000	10,74,000		30,00,000	10,74,000

On 1 July 1998, the profit and loss account of S. Ltd. showed a credit balance of ₹ 80,000 out of which a dividend of 15% was paid in December 1998. The bills payable of S. Ltd. represent bills issued in favour of H. Ltd. which company still held ₹ 80,000 of the bills accepted of S. Ltd. The entire closing stock of S. Ltd. represents goods supplied by H. Ltd. at cost *plus* 20%. Prepare as consolidated balance sheet of two companies as on 30 June 1999.

Question 35

The balance sheets of Ashish Ltd. and its subsidiary Anubhav Ltd. as on 31.3.1995 are as follows:

Liabilities	Ashish Ltd. ₹	Anubhav Ltd. ₹	Assets	Ashish Ltd. ₹	Anubhav Ltd. ₹
Share Capital:			Building	2,80,000	58,000
Equity Shares of ₹ 10 each	4,00,000	1,00,000	Plant & Machinery	2,00,000	52,000
General Reserve (1-4-1994)	2,80,000	4,000	Furniture & Fixtures	15,000	7,000
Profit & Loss account	1,70,000	72,000	Stock in trade	75,000	42,000
Sundry Creditors	70,000	35,000	Sundry Debtors	80,000	32,000
			Investments	2,00,000	—
			Cash & Bank balances	70,000	20,000
	9,20,000	2,11,000		9,20,000	2,11,000

Prepare a consolidated balance sheet together with a work sheet, having regard to the following:

- (i) Ashish Ltd. had acquired in Anubhav Ltd. 8,000 shares as at 1 July 1994 at a cost of ₹2,00,000.
- (ii) Stock-in-trade of Ashish Ltd. includes ₹ 6,000 relating to stock in trade at cost purchased from Anubhav Ltd. which follows the practice of charging 25% extra on the cost for determining the sale price.
- (iii) Sundry creditors of Ashish Ltd. includes ₹ 10,000 on account of purchases from Anubhav Ltd. who follows the practice of charging 25% extra on the cost for determining the sale price.
- (iv) Profit and loss account of Ashish Ltd. includes interim dividend declared after 1 July 1994 at the rate of 10% from Anubhav Ltd.
- (v) Balance in profit and loss account as at 1 April 1994 of Anubhav Ltd. was ₹ 56,000, an interim dividend having been paid during the year out of the said undistributed profits.
- (vi) Profits during the year 1994-195 have been earned on uniform basis throughout the year.

Question 36

Prepare a consolidated balance sheet in the books of H Company Ltd. from the following balance sheets of H. Co. Ltd. and S. Co. Ltd. and given informations:

Balance Sheets as on 31 March 1995

<i>Liabilities</i>	<i>H. Co. Ltd.</i> ₹	<i>S. Co. Ltd.</i> ₹
Preference Share Capital	2,00,000	40,000
Equity Share Capital of ₹ 100 each	8,00,000	4,00,000
General Reserve as on 1-4-94	2,00,000	1,20,000
Profit and Loss Account	2,80,000	1,80,000
Creditors	1,60,000	1,00,000
Bills Payable	—	40,000
	16,40,000	8,80,000
<i>Assets</i>		
Goodwill	80,000	60,000
Land and Building	4,00,000	2,60,000
Plant and Machinery	3,20,00	1,80,000
Debtors	40,000	1,50,000
Stock	2,00,000	1,80,000
3,000 Shares in S Co. Ltd. purchased on 30-9-94	4,80,000	—
Cash/Bank	1,20,000	40,000
Preliminary Expenses	—	10,000
	16,40,00	8,80,000

Informations

- (1) Profit and loss Account of S Co. Ltd showed a credit balance of ₹ 1,00,000 on 1 April 1994.
- (2) A dividend of 15% was paid by S Co. Ltd. in October 1994 for the year ended 31 March 1994 which was credit to profit and loss account of H Co. Ltd.
- (3) Included in creditors of S Co. Ltd. ₹ 40,000 for goods supplied by H Co. Ltd. Also included in the stock of S Co. Ltd. are goods to the value of ₹ 16,000 which were supplied by H Co. Ltd. at a profit of 25% on sales.
- (4) Plant and Machinery were revalued at ₹ 3,00,000 which stood in the books at ₹ 2,00,000 in the beginning.
- (5) There is contingent liability of ₹ 2,000 for a pending suit in the court in the books of H Co. Ltd.

Question 37

A Ltd. acquired 16,000 equity shares of ₹ 10 each in B. Ltd. on 1 October 1996 for ₹ 3,22,800. The balance sheets of the two companies as on 31 March 1997 were as follows:

<i>Liabilities</i>	<i>A Ltd.</i> ₹	<i>B Ltd.</i> ₹	<i>Assets</i>	<i>A Ltd.</i> ₹	<i>B Ltd.</i> ₹
Share capital of ₹ 10 Shares	5,00,000	2,00,000	Land & Buildings	1,80,000	1,90,000
Reserves	2,40,000	1,00,000	Plant & Machinery	2,40,000	1,35,000
Profit & Loss Account	57,200	82,000	Investments	3,60,000	—
Bank Overdraft	1,00,000	—	Stock	1,14,000	42,000
Bills Payable	—	13,000	Debtors	44,000	40,000
Sundry Creditors	69,800	20,000	Bills Receivable	14,800	—
			Cash	14,200	8,000
	9,67,000	41,5,000		9,67,000	41,5,000

Additional Information

- (i) The profit and loss account of B. Ltd. showed a balance of ₹ 30,000 on 1 April 1996 out of which a dividend of 10% was paid on 1 November 1996. The dividend was correctly recorded by A Ltd.
- (ii) The plant and machinery of B. Ltd. which stood at ₹ 1,50,000 on 1 April 1996 was considered worth ₹ 1,80,000 on the date of acquisition by A Ltd.
- (iii) Profits may be assumed to have accrued evenly throughout the year. Prepare a consolidated balance sheet.

Question 38

A Ltd. acquired 3,200 equity shares of ₹ 100 each on 31 March 1998. The balance sheet of two companies as on that date were:

<i>Liabilities</i>	<i>A Ltd.</i> ₹	<i>B Ltd.</i> ₹	<i>Assets</i>	<i>A Ltd.</i> ₹	<i>B Ltd.</i> ₹
Equity Shares of ₹ 100	10,00,000	4,00,000	Land & Buildings	3,00,000	3,60,000
Capital Reserves	—	2,40,000	Plant & Machinery	4,80,000	2,18,800
General Reserve	4,80,000	—	Investments in B Ltd. at cost	6,80,000	—
Profit & Loss Account	1,14,400	72,000	Stocks	2,40,000	72,000

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Bank Overdraft	1,60,000	—	Sundry Debtors	88,000	80,000
Bills Payable (including ₹ 8,000 to A. Ltd.)	—	16,800	Bills Receivable (including ₹ 6,000 from B. Ltd.)	31,600	—
Sundry Creditors	94,200	18,000	Cash and Bank	29,000	16,000
	18,48,600	7,46,800		18,48,600	7,46,800

The following additional information is available:

- B Ltd. has made a bonus issue on 31 March 1998 of one equity share for every two shares held by its shareholders. This issue has not yet been taken into account.
- Land buildings of B Ltd. are undervalued by ₹ 40,000 and plant and machinery of B Ltd. overvalued by ₹ 20,000. Values of these assets have to be adjusted accordingly.
- Sundry Creditors of A Ltd. include ₹ 24,000 due to B Ltd. Prepare the consolidated balance sheet as at 31 March 1998.

Question 39

The balance-sheets of H. Co. Ltd. and its subsidiary S. Co. Ltd. as on 31st March 1993 are as follows:

Liabilities	H Ltd. ₹	S Ltd. ₹	Assets	H Ltd. ₹	S Ltd. ₹
Preference Share capital	1,00,000	—	Land	3,56,000	70,000
Equity Share Capital ₹ 100 fully paid	5,00,000	1,50,000	Properties	3,76,000	40,000
General Reserve	3,40,000	6,000	Plant and Machines	1,40,000	91,300
Profit and Loss Account	3,60,000	1,08,000	Investments in 1,200 shares of S. Co. on 1-4-1992	1,80,000	
Creditors	1,00,000	44,150	Stock	1,36,000	50,600
Bills Payable		24,150	Debtors and cash	2,12,000	80,400
	14,00,000	3,32,300		14,00,000	3,32,300

The other informations given are:

- Profit and loss account of H Co. includes an interim dividend of 10% received from S. Company.
- On 1-4-1992 profit and loss account of S. Co. stood at ₹ 77,500 and general reserve at ₹ 3,000. Also H. Co. revalued plant and machines of S. Co. at the time of purchase of shares by ₹ 20,000 more than its book value.
- Stock of H. Co. includes ₹ 8,000 of stock at cost purchased from S. Co. Further Debtors of S. Co. includes ₹ 24,000 for sales to H. Co. on which S. Co. made a profit of ₹ 6,000.
- S. Co. made a bonus issue during the year out of pre-acquisition profits for ₹ 60,000 not recorded in the books. Prepare consolidated balance sheet

Question 40

Following are the balance sheets of H. Ltd. and S. Ltd. as at 31 March, 1997:

<i>Liabilities</i>	<i>H Ltd.</i> ₹	<i>S Ltd.</i> ₹
Share capital:		
Shares of ₹ 100 each	5,00,000	2,00,000
General reserve as on 1.4.1996	1,00,000	60,000
Profit & loss account	1,40,000	90,000
Bills payable	—	40,000
Creditors	80,000	50,000
	<u>8,20,000</u>	<u>4,40,000</u>
<i>Assets</i>		
Goodwill	40,000	30,000
Other fixed assets	3,60,000	2,20,000
1,500 shares in S Ltd. at cost	2,40,000	—
Stock	1,00,000	90,000
Debtors	20,000	75,000
Cash at bank	60,000	25,000
	<u>8,20,000</u>	<u>4,40,000</u>

The profit and loss account of S Ltd. showed a balance of ₹ 50,000 on 1 April, 1996. A dividend of 15% was paid on 15 October, 1996 for the year 1995-96. The dividend was credited by H Ltd. to its profit and loss account. H Ltd. acquired the shares on 1 October, 1996. 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. are ₹ 20,000 for goods supplied by H Ltd. the stock of S Ltd. includes goods to the value of ₹ 8,000 which were supplied by H Ltd. at a profit of 33-1/3% on cost. Prepare consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31 March, 1997. Give all your working notes clearly.

Question 41

The balance sheets of H Co. and S. Co. as on 31 March 1998 are as follows:

<i>Liabilities</i>	<i>H Co.</i> ₹	<i>S Co.</i> ₹	<i>Assets</i>	<i>H Co.</i> ₹	<i>S Co.</i> ₹
Preference Share Capital	3,00,000	40,000	Goodwill	70,000	60,000
Equity Share Capital of ₹ 100 each	9,00,000	4,00,000	Land & Buildings	6,00,000	2,60,000
General Reserve as on 1-4-97	2,00,000	1,20,000	Plant & Machinery	3,30,000	1,80,000

<i>Liabilities</i>	<i>H Co.</i> ₹	<i>S Co.</i> ₹	<i>Assets</i>	<i>H Co.</i> ₹	<i>S Co.</i> ₹
P & L Account	2,80,000	1,80,000	Investments :		
Creditors	1,60,000	1,00,000	3,000 shares in S. Co. (on 30.9.97)	4,80,000	—
Bills Payable	—	40,000	Debtors	40,000	1,50,00
			Stocks	2,00,000	1,80,000
			Cash	1,20,000	40,000
			Preliminary Exp.	—	10,000
	18,40,000	8,80,000		18,40,000	8,80,000

Informations: **1.** A dividend of 15% was paid by S Co. in October, 1997 for the year ended 31 March, 1997; **2.** Plant & Machinery of S. Co. in the beginning was ₹ 2,00,000. H. Co. revalued it by ₹ 1,00,000 more at the time of purchase of shares; **3.** There was a bonus issue of ₹ 40,000 out of post-acquisition profits by S. Co.; **4.** Credit balance of P & L Account of S. Co. on 1 April 1997 was ₹ 1,00,000; **5.** Included in creditors of S. Co. are goods to the value of ₹ 16,000 which were supplied by H Co. at profit of 25% on sales. Prepare consolidated balance sheet giving working notes.

MCQs

1. Minority interest should be presented in the consolidated balance sheet
 - (a) As a part of liabilities
 - (b) As a part of equity of the parent's shareholders
 - (c) Separately from liabilities and the equity of the parent's shareholders
2. Minority of the subsidiary is entitled to
 - (a) Capital profits of the subsidiary company
 - (b) Revenue profits of the subsidiary company
 - (c) Both capital and revenue profits of the subsidiary company
3. In consolidation of accounts of holding and subsidiary company _____ is eliminated in full.
 - (a) Current liabilities of subsidiary company
 - (b) Reserves and surplus of both holding and subsidiary company
 - (c) Mutual indebtedness.
4. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as
 - (a) Minority interest
 - (b) Capital reserve
 - (c) Current liability
5. Taxation provision made by the subsidiary company will appear in the consolidated balance sheet as an item of
 - (a) Current liability.
 - (b) Revenue profit.
 - (c) Capital profit.
6. Issue of bonus shares by the subsidiary company out of capital profits will
 - (a) Decrease cost of control.
 - (b) Increase cost of control.
 - (c) Have no effect on cost of control.
7. Dividend paid by subsidiary to its parent, out of capital profits, should be credited by the parent company in its
 - (a) Profit and loss account.
 - (b) Dividend account.
 - (c) Shares invested in subsidiary account.

Answers

1. (c), 2. (c), 3. (c), 4. (a), 5. (a), 6. (c), 7. (c)

Non-Banking Financial Companies

Question 1

Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount ₹ in 000	Assets	Amount ₹ in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	100
Deposits	400	group companies	
		In debentures of subsidiaries and	100
		group Companies	
		Cash and bank balances	200
		Deferred expenditure	200
	<u>1,400</u>		<u>1,400</u>

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(Study Material)

Question 2

Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue ₹ 40 lakhs), on 24 accounts for three months (amount overdue ₹ 24 lakhs), on 10 accounts for more than 30 months (amount overdue ₹ 20 lakhs) and on 4 accounts for more than three years (amount over due ₹ 20 lakhs-already identified as sub- standard assets) and one account of ₹ 10 lakhs which has been identified as non- recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 6 lakhs) for more than 14 months and other are identified as sub-standard asset for a period of less than 14 months.

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

(Study Material)

Question 3

While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

	(₹ in lakhs)
Standard assets	16,800
Sub-standard assets	1,340
Secured portions 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 as per

- the Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and
- Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(Study Material)

Theoretical Questions

Question 4

Write short notes on:

- “Non-Performing Assets” as per NBFC Prudential Norms (RBI) directions.
- Earning value (Equity share).

(Study Material)

Practical Questions

Question 5

While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	16,800
Sub-standard assets	1,340
Secured portions 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 as per

- (i) the Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and
- (ii) Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(Study Material)

Question 6

Peoples Financiers Ltd. is a NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss		Net Book Value of Assets outstanding (₹ in crore)
	Period Overdue	Interest Amount (₹ in crore)	
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machine	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made.

(Study Material)

MCQs

1. For the purpose of RBI Directions relating to Acceptance of Public Deposits, non-banking financial company means the non-banking institution which is a
 - (a) Loan company or investment company.
 - (b) Hire-purchase finance company or equipment leasing company.
 - (c) Both (a) and (b).
2. For Sub-standard assets in the case of NBFC, a general provision of
 - (a) 5% of total outstanding shall be made.
 - (b) 10% of total outstanding shall be made.
 - (c) 15% of total outstanding shall be made.
3. "Owned fund" excludes
 - (a) paid up capital.
 - (b) free reserves, balance in share premium account.
 - (c) reserves created by revaluation of asset.

Answers

1. (c), 2. (b), 3. (c)

Amalgamation

Question 1

The following are the summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2014:

	Yes Ltd.	No Ltd.
	₹ (in crores)	₹ (in crores)
Sources of funds:		
Share capital:		
Authorised	25	5
Issued and Subscribed:		
Equity Shares of ₹ 10 each fully paid	12	5
Reserves and surplus	<u>88</u>	<u>10</u>
Shareholders funds	100	15
Unsecured loan from Yes Ltd.	<u>—</u>	<u>10</u>
	<u>100</u>	<u>25</u>
Funds employed in:		
Fixed assets: Cost	70	30
Less: Depreciation	(50)	(24)
Written down value	20	6
Investments at cost:		
30 lakhs equity shares of ₹ 10 each	3	
Long-term loan to No. Ltd.	10	
Current assets	100	34
Less: Current liabilities	<u>(33)</u>	<u>(15)</u>
	<u>67</u>	<u>19</u>
	100	25

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above.

(Group I-Practice Manual)

Question 2

Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The summarized balance sheets of both the companies were as under:

Super Express Ltd.**Balance Sheet as at 31st December, 2014**

	₹		₹
20,000 Equity shares of ₹ 100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Trade Payables	60,000	Inventory	3,00,000
Insurance reserve	1,00,000	Trade receivables	2,40,000
		Cash at bank	2,20,000
		Cash in hand	<u>1,00,000</u>
	<u>22,60,000</u>		<u>22,60,000</u>

Fast Express Ltd.**Balance Sheet as at 31st December, 2014**

	₹		₹
10,000 Equity shares of ₹ 100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Trade Payables	40,000	Machinery	5,00,000
Reserve account	1,00,000	Inventory	40,000
Surplus	<u>1,00,000</u>	trade receivables	40,000
	<u>13,00,000</u>	Cash at bank	10,000
		Cash in hand	<u>10,000</u>
			<u>13,00,000</u>

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to 30,000 (20,000 for Super Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd.

(Group I-Practice Manual)

Question 3

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2015:

Liabilities	P Ltd.	V Ltd.
	(₹ in lakhs)	(₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	15,000	6,000
Securities Premium	3,000	—
Foreign Project Reserve	—	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825

Liabilities	P Ltd.	V Ltd.
	(₹ in lakhs)	(₹ in lakhs)
12% Debentures	—	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

Assets	P Ltd.	V Ltd.
	(₹ in lakhs)	(₹ in lakhs)
Land and Buildings	6,000	—
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2015, P Ltd. took over V Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity 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.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	<u>—</u>	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:

- Pass journal entries in the books of P Ltd. and
- Prepare P Ltd.'s Balance Sheet immediately after the merger.

(Group I-Practice Manual)

Question 4

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2015 was as under:

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	<u>50,000</u>	<u>20,000</u>
	<u>13,50,000</u>	<u>5,70,000</u>

Liabilities

Share Capital:	Hari Ltd. (₹)	Vayu Ltd. (₹)
Equity Shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹ 100 each	1,00,000	—
10% Preference Shares of ₹ 100 each	—	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	<u>1,30,000</u>	<u>80,000</u>
	<u>13,50,000</u>	<u>5,70,000</u>

Hari Ltd. absorbs Vayu Ltd. on the following terms:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2015.

(Study Material)

Question 5

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14.

Or

What disclosures should be made in the first financial statements following the amalgamation?

(Study Material)

Question 6

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2015:

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹ 100 each fully paid	14,00,000	Sundry assets	18,00,000
General reserve	10,000	Discount on issue of debentures	10,000
10% Debentures	2,00,000	P & L A/c	90,000
Trade payables	2,40,000		
Bank overdraft	<u>50,000</u>		
	<u>19,00,000</u>		19,00,000

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following:

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹ 25,000.

(Group I-Practice Manual)

Question 7

Following is the summarized Balance Sheet of X Co. Ltd. as at 31st March, 2015: Balance Sheet as at 31st March, 2015

Liabilities	₹	Assets	₹
Equity share capital (₹ 100 each)	15,00,000	Land and building	10,00,000
11% Pref. share capital	5,00,000	Plant and machinery	7,00,000
General reserve	3,00,000	Furniture and fittings	2,00,000
trade payables	2,00,000	Inventory in trade	3,00,000
		trade receivables	2,00,000
		Cash in hand and at bank	<u>1,00,000</u>
	<u>25,00,000</u>		<u>25,00,000</u>

Y Co. Ltd. agreed to take over X Co. Ltd. on the following terms:

- Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at ₹ 80.
- Equity shares will be issued by Y Co. Ltd. by valuing its each equity shares of ₹ 100 each at ₹ 120 per share.
- 11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.
- All the Assets and Liabilities of X Co. Ltd. will be recorded at the same value in the books of Y Co. Ltd.
 - Calculate Purchase consideration.
 - Pass Journal entries in the books of Y Co. Ltd. for absorbing X Co. Ltd.

(Group I-Practice Manual)

Question 8

Summarised Balance Sheets as on 31st March, 2015

Liabilities	Gee Ltd. ₹	Pee Ltd ₹	Assets	Gee Ltd. ₹	Pee Ltd. ₹
Equity share capital (₹ 10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference share capital (₹ 100 each)	11,00,000	8,50,000	Plant and machinery	16,25,000	8,50,000
General reserve	-	-	Furniture and fixtures	2,87,500	1,75,000
Export profit reserve	2,50,000	2,50,000	Investments	3,50,000	2,50,000
Investment allowance reserve	1,50,000	1,00,000	Inventory	6,25,000	4,75,000
Profit and loss account	-	50,000	Trade receivables	4,50,000	5,15,000
15% Debentures (₹ 100 each)	3,75,000	1,25,000	Cash at bank	3,62,500	2,60,000
Trade payables	2,50,000	1,75,000			
Other current liabilities	2,25,000	1,75,000			
	<u>1,00,000</u>	<u>75,000</u>			
	<u>49,50,000</u>	<u>33,00,000</u>		<u>49,50,000</u>	<u>33,00,000</u>

All the bills receivables of Pee Ltd. were having Gee Ltd.'s acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2015. The purchase consideration is discharged as follows:

- Issued 1,65,000 equity shares of ₹ 10 each at par to the equity shareholders of Pee Ltd.
- Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
- The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
- The statutory reserves of Pee Ltd. are to be maintained for two more years.
- Expenses of amalgamation amounting to ₹ 10,000 will be borne by Gee Ltd.
- Details of trade receivables and trade payables as under:

	Gee L td.	Pee Ltd.
Trade payables		
Trade payables	1,50,000	75,000
Bills payables	<u>75,000</u>	<u>1,00,000</u>
	<u>2,25,000</u>	<u>1,75,000</u>
Trade receivables		
Debtors	4,00,000	4,60,000
Bills receivables	<u>50,000</u>	<u>55,000</u>
	<u>4,50,000</u>	<u>5,15,000</u>

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2015 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

(Group I-Practice Manual)

Question 9

The summarised Balance Sheet of Mars Limited as on 31st March, 2015 was as follow:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	Land and building	7,64,000
Reserve and surplus:		Current Assets:	
Capital reserve	42,000	Inventory	7,75,000
Contingency reserve	2,70,000	Trade receivables	1,82,000
Profit and loss A/c	2,52,000	Cash at bank	3,29,000
Current Liabilities & Provisions:			
Trade payables	2,66,000		
Provision for income tax	<u>2,20,000</u>		
	<u>20,50,000</u>		<u>20,50,000</u>

On 1st April, 2015, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- (1) Jupiter Limited will take over the assets at the following values:

	₹
Land and building	10,80,000
Inventory	7,70,000
Bills receivable	30,000

- (2) Purchase consideration will be settled by Jupiter Ltd. as under:
4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.
- (3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.
- (4) Trade receivables realized ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.
- (5) Trade payables were finally settled with cash remaining after meeting liquidation expenses amounting to ₹ 8,000.
- (6) Details of trade receivables and trade payables as under:

Trade Receivables		
Debtors	1,60,000	
Less: Provision for doubtful debts	(8,000)	1,52,000
Bill receivable		<u>30,000</u>
		<u>1,82,000</u>
Trade Payables		
Bills payable		40,000
Creditors		<u>2,26,000</u>
		<u>2,66,000</u>

You are required to:

- (i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration
- (ii) Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd.

(Group I-Practice Manual)

Question 10

The following was the Balance Sheet of V Ltd. as on 31st March, 2015:

Particulars	Note No.	Amount (₹ in lakhs)
Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
(a) Long-term Borrowings	3	630
(3) Current Liabilities		
Trade Payables		170
Total		1,863
Assets		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		1,863

Notes:

(1) Share Capital	
Authorised:	?
Issued, Subscribed and Paid up:	
80 lakhs Equity Shares of ₹ 10 each, fully paid up	800
35 lakhs 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	350
Total	1,150
(2) Reserves and Surplus	
Profit & Loss Account	(87)
Total	(87)
(3) Long-term Borrowings	
10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630

(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152
(5) Cash and Cash Equivalents	
Balance at Bank	69
Cash in hand	6
Total	75

On 1st April, 2015, P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹ 10 each issued at a premium of ₹ 2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the takeover by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 lakhs. P Ltd. discovered that its trade payables included ₹ 7 lakhs due to V Ltd. for goods purchased.

Also P Ltd.'s Inventory included goods of the invoice price of ₹ 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price. You are required to:

- Prepare Realisation A/c in the books of V Ltd.
- Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

(Group I-Practice Manual)

Question 11

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares of ₹ 10 fully paid	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Tangible Fixed Assets	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5,00,000	Cash & Bank	2,80,000
Trade Creditors	<u>1,00,000</u>	Preliminary Expenses	<u>50,000</u>
	<u>50,50,000</u>		<u>50,50,000</u>

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1st April, 2014.

- The purchase consideration settled by Anu Ltd. as agreed:
 - 4,50,000 equity Shares of ₹ 10 each issued by Anu Ltd. by valuing its share @ ₹ 15 per share.
 - Cash payment equivalent to ₹ 2.50 for every share in Srishti Ltd.

- (b) The issue of such an amount of fully paid 8% Debentures in Anu Ltd. at 96% as is sufficient to discharge 9% Debentures in Srishti Ltd. at a premium of 20%.
- (c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.
- (d) The actual cost of liquidation of Srishti Ltd. was ₹ 75,000. Liquidation cost of Srishti Ltd. is to be reimbursed by Anu Ltd. to the extent of ₹ 50,000.
- (e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

- (i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and
- (ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business.

(Group I-Practice Manual)

Question 12

Exe Limited was wound up on 31.3.2013 and its summarized Balance Sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3. 2013

Liabilities	₹	Assets		₹
Share capital: 1,20,000 Equity shares of ₹10 each	12,00,000	Fixed assets		9,64,000
Reserves and surplus:		Current assets:		
Profit prior to incorporation	42,000	Inventory	7,75,000	
Contingency reserve	2,70,000	Trade receivables	1,82,000	
Profit and loss A/c	2,52,000	Cash at bank	<u>3,29,000</u>	12,86,000
Current liabilities:				
Trade payables	2,66,000			
Provisions:				
Provision for income tax	<u>2,20,000</u>			
	<u>22,50,000</u>			<u>22,50,000</u>

The details of Trade receivables and trade payables are as under:

Trade receivables		
Sundry debtors	1,60,000	
Less: Provision for bad and doubtful debts	<u>(8,000)</u>	1,52,000
Bills receivable		<u>30,000</u>
		<u>1,82,000</u>
Trade payables		
Bills payable		40,000
Sundry creditors		<u>2,26,000</u>
		<u>2,66,000</u>

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Inventory ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹ 8 per share paid up.

Trade receivables realised ₹ 1,50,000. Bills payable was settled for ₹38,000. Income-tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.
- Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.
- Pass journal entries in the books of Wye Limited.

(Group II-Practice Manual)

Question 13

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(Study Material)

Question 14

Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. On 31st March 2013 the Balance Sheets of the two companies were as under:

Ram Limited

Balance Sheet as at 31st March, 2013

Liabilities	₹	Assets	₹
Issued and Subscribed Share capital:		Freehold Property, at cost	2,10,000
30,000 Equity shares of ₹ 10 each, fully paid	3,00,000	Plant and Machinery, at cost less depreciation	50,000
General Reserve	1,60,000	Motor Vehicles, at cost less depreciation	20,000
Profit and Loss Account	40,000	Inventory	1,20,000
Trade payables	1,50,000	Trade receivables	1,64,000
		Cash at Bank	86,000
	6,50,000		6,50,000

Shyam Limited

Balance Sheet as at 31st March, 2013

Liabilities	₹	Assets	₹
Issued and Subscribed Share Capital:		Freehold Property, at cost	1,20,000
16,000 Equity shares of ₹ 10 each, fully paid	1,60,000	Plant and Machinery, at cost less depreciation	30,000
Profit and Loss Account	40,000	Inventory	1,56,000
6% Debentures	1,20,000	Trade receivables	42,000
Trade payables	64,000	Cash at Bank	36,000
	3,84,000		3,84,000

Assets and Liabilities are to be taken at book-value, with the following exceptions:

- Goodwill of Ram Limited and of Shyam Limited is to be valued at ₹ 1,60,000 and ₹60,000 respectively.
- Motor Vehicles of Ram Limited are to be valued at ₹ 60,000.
- The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%.
- The trade receivables of Shyam Ltd. realized fully and bank balance of Shyam Ltd, are to be retained by the liquidator and the trade payables of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to:

- Compute the basis on which shares in Ram and Shyam Limited will be issued to the shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is ₹ 10.
- Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April, 2013, the date of completion of amalgamation.
- Write up journal entries, including bank entries, for closing the books of Shyam Limited.

(Group I-Practice Manual)

Question 15

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

(Study Material)

Question 16

Given below are the summarized balance sheets of Vasudha Ltd. and Vaishali Ltd as at 31st March, 2013.

(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 Trade payables	66,000	43,500	Goodwill	50,000	35,000
	<u>44,400</u>	<u>58,200</u>	Cash at Bank	<u>98,000</u>	<u>1,09,590</u>
	<u>7,36,400</u>	<u>5,59,990</u>		<u>7,36,400</u>	<u>5,59,990</u>

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.

(Group II-Practice Manual)

Question 17

Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 2014:

Liabilities	₹ ('000)	Assets	₹ ('000)
Share Capital:		Land & Buildings	50,00
Equity Shares of ₹ 10 each	75,00	Plant & Machinery	45,00
14% Preference Shares of		Furniture	10,50
₹ 100 each	25,00	Investments	5,00
General Reserve	12,50	Inventory	23,00
12% Debentures	40,00	Trade receivables	24,00
Trade payables and other		Cash & Bank balance	15,00
Current liabilities	<u>20,00</u>		
	<u>172,50</u>		<u>172,50</u>

Other Information:

- Y Ltd. takes over X Ltd. on 10th April, 2014.
- Debentureholders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
- 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).
- Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.

Compute the purchase consideration.

(Study Material)

Question 18

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2015. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2015:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	₹	₹		₹	₹
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	<u>13,98,500</u>	<u>14,12,600</u>		<u>13,98,500</u>	<u>14,12,600</u>

Following are the additional information:

- The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.
- Liabilities of Neel Ltd. includes ₹ 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.
- Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2015.

- (iv) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- (v) The purchase consideration is to be discharged as under:

- (a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.
 (b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

- (c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2015 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

- (i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
 (ii) Purchase consideration.

(Study Material)

Question 19

Consider the following summarized balance sheets of X Ltd. and Y Ltd.

Balance Sheet as on 31st March, 2015

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	₹ '000	₹ '000		₹ '000	₹ '000
Equity Share Capital (₹ 10 each)	50,00	30,00	Land & Building	25,00	15,50
14% Preference Share Capital (₹ 100 each)	22,00	17,00	Plant & Machinery	32,50	17,00
General Reserve	5,00	2,50	Furniture & Fittings	5,75	3,50
Export Profit Reserve	3,00	2,00	Investments	7,00	5,00
Investment Allowance Reserve		1,00	Inventory	12,50	9,50
Profit & Loss A/c	7,50	5,00	Trade receivables	9,00	10,30
13% Debentures (₹ 100 each)	5,00	3,50	Cash & Bank	7,25	5,20
Trade payables	4,50	3,50			
Other Current Liabilities	2,00	1,50			
	99,00	66,00		99,00	66,00

X Ltd. takes over Y Ltd. on 1st April, 2015. X Ltd. discharges the purchase consideration as below:

- (i) Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.
- (ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

- (a) the amalgamation is in the nature of merger.
- (b) the amalgamation is in the nature of purchase.

(Study Material)

Question 20

S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

	₹		₹
Share capital:		Sundry Assets	13,00,000
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	2,00,000		
5,000 Equity shares of ₹ 100 each (fully paid-up)	5,00,000		
Reserves	3,00,000		
6% Debentures	2,00,000		
Trade payables	1,00,000		
	13,00,000		13,00,000

P. Ltd. has agreed:

- (i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.
- (ii) to issue to the debenture-holders in S. Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;
- (iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and
- (iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

(Study Material)

Question 21

Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	₹		₹
3,000 Equity shares of ₹ 100 each (fully paid)	3,00,000	Net assets	2,90,000
Preference shares	60,000	Profit and Loss Account	70,000
	3,60,000		3,60,000

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders equity shares will be issued at value of ₹120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

(Study Material)

Question 22

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:

	K Ltd. ₹	L Ltd. ₹		K Ltd. ₹	L Ltd. ₹
Share Capital			Goodwill	80,000	
Equity Shares			Land & Building	4,50,000	3,00,000
of ₹ 100 each	8,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
7% Preference Share	4,00,000	3,00,000	Furniture and	60,000	20,000
of ₹ 100 each			Fittings		
5% Debentures	2,00,000	—	Trade receivables	2,75,000	1,75,000
General Reserve	—	1,00,000	Stores & inventory	2,25,000	1,40,000
Profit and Loss			Cash at Bank	1,20,000	55,000
Account	3,71,375	97,175	Cash in hand	41,375	17,175
Trade payables	1,00,000	2,10,000			
Secured Loan	—	2,00,000			
	18,71,375	12,07,175		18,71,375	12,07,175

The terms of amalgamation are as under:

- (A) (1) The assumption of liabilities of both the Companies.
- (2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.
- (3) 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. 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 amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.
- (B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.
- (2) The trade receivables 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 up at premium of ₹ 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

(Study Material)

Question 23

The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2014:

	(₹ in thousands)	
	A Ltd.	B Ltd.
Liabilities		
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	---
10% Debentures	500	---
Loans from	250	450
Banks Bank overdrafts	---	50
Trade payables	300	300
Proposed dividend	200	---
Total	4,050	1,800
Assets		
Tangible assets/fixed assets	2,700	850
Investments	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

- Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.
- B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).
- Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.
- Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.
- Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

(Study Material)

Question 24

The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March 2014:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹ 10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of ₹ 100 each	2,00,000	1,00,000	Current Assets:		
Reserves and Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
			Trade receivables	4,20,000	2,10,000
			Cash at Bank	1,10,000	40,000

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Secured Loans:					
12% Debentures	2,00,000	1,50,000			
Current Liabilities:					
Trade payables	<u>2,50,000</u>	<u>1,50,000</u>			
	<u>15,50,000</u>	<u>9,00,000</u>		<u>15,50,000</u>	<u>9,00,000</u>

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	<u>60,000</u>	<u>20,000</u>
	<u>4,20,000</u>	<u>2,10,000</u>
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	<u>30,000</u>	<u>25,000</u>
	<u>2,50,000</u>	<u>1,50,000</u>

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, P Ltd. will absorb Q Ltd. on the following terms:

- (i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
- (ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.
- (iii) 12% Debentureholders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
- (iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

Prepare:

- (a) Journal entries in the books of P Ltd.
- (b) Statement of consideration payable by P Ltd.

(Study Material)

Question 25

Given below are the summarized balance sheets of Huge Ltd and Big Ltd. as on 31.12.2013. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2014.

Balance Sheets as on 31.12.2013

(₹)

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
Share capital:			Sundry fixed assets	9,50,000	4,00,000
Equity shares of ₹ 10 each	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
General reserve	3,50,000	1,20,000	Inventory	1,20,000	50,000
Profit and loss A/c	2,00,000	65,000	Trade receivables	75,000	80,000
Export profit reserve	70,000	40,000	Advance tax	80,000	20,000
12% Debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Trade payables	40,000	45,000			
Provision for taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,00,000	7,30,000		17,00,000	7,30,000

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%.

Profit of Huge Ltd. and Big Ltd. during 2011 2012 and 2013 were as follows:

Year	Huge Ltd. ₹	Big Ltd. ₹
2011	5,00,000	1,50,000
2012	6,50,000	2,10,000
2013	5,75,000	1,80,000

Goodwill may be calculated on the basis of capitalization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend as it has already been not approved by Board of Directors.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger.

(Study Material)

Question 26

The following are the summarised balance sheets of A Ltd. and B Ltd. as on March 31, 2015:

Liabilities	A Ltd. (₹)	B Ltd. (₹)
Equity Shares, ₹ 10 each, fully paid up	7,20,000	3,00,000
14% Preference Share Capital, ₹ 100 each, fully paid up	1,50,000	1,70,000
Securities Premium	1,50,000	
Capital Reserve		13,000
General Reserve	80,000	45,000
Export Profit Reserve		20,000
Profit and Loss Account	75,000	40,000
Workmen Compensation Fund		3,000

Liabilities	A Ltd. (₹)	B Ltd. (₹)
13% Debentures, ₹ 100 each, fully paid up	1,00,000	50,000
Trade payables	1,15,000	35,000
Provision for Taxation	15,000	10,000
	14,05,000	6,86,000
Assets		
Goodwill	2,00,000	60,000
Land and Buildings	2,50,000	
Plant and Machinery	3,25,000	2,70,000
Furniture and Fixtures	57,000	95,000
Inventory	2,15,000	1,75,000
Trade receivables	72,000	30,000
Income Tax Refund Claim		6,000
Cash at Bank	2,16,000	50,000
Cash in Hand	70,000	
	14,05,000	6,86,000

A Ltd. take over B Ltd. on April 01, 2015 and discharges consideration for the business as follows:

- Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.
- Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders of B Ltd. at a premium of 10%.
- It is agreed that the debentures of B Ltd. will be converted into equal number and amount of 13% debentures of A Ltd.
- The Statutory Reserve of B Ltd. is to be maintained for two more years.
- Expenses of amalgamation amounting to ₹ 15,000 are borne by A Ltd.

(Study Material)

Required Calculate P.C. Journalise in A Ltd.

Question 27

Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2012:

Particulars	A Ltd.	B Ltd.
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	—
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	—
Secured loan	—	3,00,000
Trade payables	2,60,000	1,70,000
	24,40,000	14,80,000

Particulars	A Ltd.	B Ltd.
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment	80,000	—
Inventory	5,20,000	3,50,000
Trade receivables	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

- (i) A new company is to be formed by name AB Ltd.
- (ii) AB Ltd. to take over all the assets and liabilities of the existing companies.
- (iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:
 - A Ltd. = ₹ 18 per share
 - B Ltd. = ₹ 20 per share
- (iv) A contingent liability of A Ltd. of ₹ 60,000 is to be treated as actual existing liability.
- (v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of ₹ 6 per share.
- (vi) The face value of shares of AB Ltd. are to be of ₹ 10 each.

You are required to:

- (i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).
- (ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.
- (iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.
- (iv) Prepare the Balance Sheet of AB Ltd.

(Study Material)

Question 28

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(Study Material)

Question 29

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 December, 2012, the respective summarized Balance Sheets of Star and Moon were as follows:

	Star ₹	Moon ₹
Fixed Assets	3,17,500	1,82,500
Current Assets	<u>1, 63,500</u>	<u>83,875</u>
	4,81,000	2,66,375
Less: Current Liabilities	<u>(2,98, 500)</u>	<u>(90, 125)</u>
Representing Capital	<u>1, 82,500</u>	<u>1, 76,250</u>
Additional Information:		

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

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

(b) The Trade receivables and Trade payables—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 and 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:

	Star	Moon
2010 Profit	2,24,788	1,36,950
2011 (Loss)/Profit	(1,250)	1,71,050
2012 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 December, 2012 after revaluation of assets.

You are requested to:

- (1) Compute the amount of debentures and shares to be issued to Star and Moon.
- (2) A Balance Sheet of Neptune Ltd., showing the position immediately after amalgamation.

(Group II-Study Material)

Question 30

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd. Following is the summarized Balance Sheet of P and Q as at 31.3.2012:

Liabilities	P ₹	Q ₹	Assets	P ₹	Q ₹
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

- The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.
- Liabilities of P includes ₹ 50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.
- P has goods purchased from Q, cost to him ₹ 10,000. This is included in the Current asset of P as at 31st March, 2012.
- The assets of P and Q are to be revalued as under:

	P ₹	Q ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- The purchase consideration is to be discharged as under:
 - Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.
 - Profits for the preceding 2 years are given below:

	P ₹	Q ₹
Ist year	2,62,800	2,75,125
IIInd year	<u>2, 12,200</u>	<u>2, 49,875</u>
Total	<u>4, 75,000</u>	<u>5, 25,000</u>

- Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2012 after revaluation of assets of P and Q respectively.

You are required to:

- Compute the amount of equity and preference shares issued to P and Q.
- Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

(Group II-Study Material)

Question 31

X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2012 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd. The summarized Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2012 are as follows:

(₹ in Crores)					
Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Share Capital:			Land and Buildings	38	25
Equity share of ₹ 10 each	50	45	Plant and Machinery	24	17
10% Preference shares of ₹ 100 each	20	14	Investments	10	6
Revaluation Reserve	10	6	Inventory	22	15
General Reserve	12	8	Trade Receivable	30	24
Investment Allowance Reserve	5	4	Cash at Bank	16	13
Profit & Loss Account	8	6			
15% Debentures of ₹ 100 each (Secure)	4	5			
Trade payable	31	12			
	140	100		140	100

Additional Information:

- (1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. and 2 equity shares for 5 equity shares of Y Ltd. The shares are issued @ ₹ 30 each having a face value of ₹ 10 per share.
- (2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of ₹ 120 per share (face value ₹ 100).
- (3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

(Group II-Study Material)

Question 32

The summarized Balance Sheet of A Limited and B Limited as at 31st March, 2012 are as follows:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity share of ₹ 10 each	20,00,000	12,00,000	Sundry assets	30,00,000	18,00,000
General reserve	4,00,000	2,20,000			
Trade payables	6,00,000	3,80,000			
	30,00,000	18,00,000		30,00,000	18,00,000

Sundry assets of B Ltd. includes long term investment of ₹ 4,00,000, the market value of which is now ₹ 4,80,000. A Ltd. absorbed B Ltd. on the basis of intrinsic value of the shares. The purchase consideration is to be discharged in fully paid-up equity shares. A sum of ₹ 1,00,000 is owed by A Ltd. to B Ltd., also included in the Inventory of A Ltd. is ₹ 1,20,000 goods supplied by B Ltd. at cost plus 20%.

Give Journal entries in the books of both the companies, if entries are made at intrinsic value.
Also prepare Balance Sheet of A Ltd. after absorption.

(Group II-Study Material)

Question 33

The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2011:

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

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	<u>30,000</u>	<u>25,000</u>
	<u>2,50,000</u>	<u>1,50,000</u>
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	<u>1,40,000</u>	<u>1,00,000</u>
	<u>5,00,000</u>	<u>2,90,000</u>

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:

- 8 Equity Shares of ₹ 10 each will be issued by A Ltd. at par against 6 shares of B Ltd.
- 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.
- 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.
- ₹ 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:

- Absorption entries in the books of A Ltd.
- Statement of consideration payable by A Ltd.

(Group II-Study Material)

Question 34

AX Ltd. and BX Ltd. amalgamated on and from 1st January, 2013. A new Company ABX Ltd. was formed to take over the businesses of the existing companies.

Summarized Balance Sheet as on 31-12-2012

Equity and Liabilities	AX Ltd. ₹ '000	BX Ltd. ₹ '000	Assets	AX Ltd. ₹ '000	BX Ltd. ₹ '000
Share Capital			Sundry Fixed	85,00	75,00
Equity Shares of ₹ 10	60,00	70,00	Assets	10,50	5,50
each General Reserve P	15,00	20,00	Investment	12,50	27,50
& L A/c	10,00	5,00	Inventory	18,00	40,00
Investment Allowance			Trade receivables	4,50	4,00
Reserve	5,00	1,00	Cash & Bank		
Export Profit Reserve	50	1,00			
12% Debentures	30,00	40,00			
Trade payables	<u>10,00</u>	<u>15,00</u>			
	<u>130,50</u>	<u>152,00</u>		<u>130,50</u>	<u>152,00</u>

ABX Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies.

You are required to prepare (i) Note showing purchase consideration and discharge thereof, (ii) Journal entries in the books of ABX Ltd. For taking over both companies, (iii) Balance Sheet of ABX Ltd. as on 1st January, 2013 assuming the amalgamation is in the nature of purchase.

(Group II-Study Material)

Question 35

The Abridged Balance Sheet (Draft) of Cyber Ltd. as on 31st March, 2012 is as under:

Liabilities	₹	Assets	₹
24,000, Equity shares of ₹ 10 each	2,40,000	Goodwill	5,000
5000, 8% cumulative preference shares of ₹ 10 each	50,000	Fixed Assets	2,57,000
8% Debentures	1,00,000	Inventories	50,000
Interest accrued on debentures	8,000	Trade receivables	60,000
Trade payables	<u>1,00,000</u>	Bank	1,000
	<u>4,98,000</u>	Profit & Loss Account	<u>1,25,000</u>
			<u>4,98,000</u>

The following scheme is passed and sanctioned by the court:

- (i) A new company Mahal Ltd is formed with ₹ 3,00,000, divided into 30,000 Equity shares of ₹ 10 each.
- (ii) The new company will acquire the assets and liabilities of Cyber Ltd. on the following terms:
 - (a) Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.
 - (b) The trade payables are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.

- (c) Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.
- (d) Equity shareholders are issued one share at par for every three shares held.
- (e) Expenses of ₹ 8,000 are to be borne by the new company.
- (iii) Current Assets are to be taken at book value (except Inventory, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated, balance of purchase consideration being attributed to fixed assets.
- (iv) Remaining shares of the new company are issued to public at par and are fully paid. You are required to show:
 - (a) In the old company's books:
 - (i) Realisation Account
 - (ii) Equity Shareholder's Account
 - (b) In the new company's books:
 - (i) Bank Account
 - (ii) Summarised Balance Sheet as per the requirements of Schedule-III.

(Group II-Study Material)

Past Examination Questions

Question 36

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

(Study Material)

Question 37

What are the conditions that are to be satisfied for 'Amalgamation in the nature of Merger'?

(Study Material)

Question 38

A Ltd. take over B Ltd. on April 01, 2015 and discharges consideration for the business as follows:

- (i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.
- (ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.
- (iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate Considerations

(Study Material)

Question 39

The Balance Sheet of Mars Limited as on 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	
1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000	Land and building	7,64,000
Reserve and Surplus		Current Assets	
Capital Reserve	42,000	Stock	7,75,000
Contingency Reserve	2,70,000	Sundry Debtors	1,60,000
Profit and Loss A/c	2,52,000	Less: Provision for Doubtful debts	8,000
Current Liabilities & Provisions		Bills receivable	30,000
Bills payable	40,000	Cash at Bank	3,29,000
Sundry Creditors	2,26,000		
Provision for Income-tax	2,20,000		
	20,50,000		20,50,000

On 1st April, 2011 Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- (1) Jupiter Limited will takeover the assets at the following values:

Land and building	₹ 10,80,000
Stock	₹ 7,70,000
Bills receivable	₹ 30,000
- (2) Purchase consideration will be settled by Jupiter Ltd. as under:

4,100 fully paid 10% preference share of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹ 10 each at ₹ 8 paid up.
- (3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000
- (4) Sundry debtors realised ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income-tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.
- (5) Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- (i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration.
- (ii) Prepare the Realisation A/c, Bank Account, Equity Shareholders Account and Jupiter Limited's Account in the books of Mars Ltd.

(Group I-May 2011, 16 Marks)

Question 40

The following was the Balance Sheet of V Ltd. as on 31st March, 2012:

Particulars	Note No.	Amount ₹ (in lakhs)
Equity and Liabilities		
(1) Shareholder's funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
(a) Long-term Borrowings	3	630
(3) Current Liabilities		
Trade Payables		170
Total		1,863
Assets		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		1,863

Notes:

(1) Share Capital	
Authorised:	?
Issued, Subscribed and Paid up:	
80 lakh, Equity Shares of ₹10 each, Fully paid up	800
35 lakh 12% Cumulative Preference Shares	
Of ₹10 each, fully paid up	350
Total	1,150
(2) Reserves and Surplus	
Debit Balance of Profit & Loss Account	(87)
Total	(87)
(3) Long-Term Borrowings	
10% Secured Cumulative Debentures of ₹100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630
(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152

(5) Cash and Cash Equivalents	
Balance at Bank	69
Cash in hand	6
Total	75

On 1st April, 2012 P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹10 each issued at a premium of ₹2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakh 13% Cumulative Preference Shares of ₹10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹100 each, fully paid up after the take over by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹2 lakh P Ltd. discovered that its creditors included ₹7 lakh due to V Ltd. for goods purchased.

Also P Ltd.'s stock included goods of the invoice price of ₹5 lakh earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

- Prepare Realisation A/c in the books of V Ltd.
- Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

(Group I-November 2012, 16 Marks)

Question 41

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14.

Or

What disclosures should be made in the first financial statements following the amalgamation?

(May 2014)

Question 42

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(May 2015)

Question 43

Given below are the Balance Sheet of two companies as on 31st December, 2015.

A Limited

Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
<u>Issued and fully paid up</u>		Building	5,40,000
50,000 8% Cumulative	5,00,000	Plant and Machinery	15,10,000
Preference Shares of ₹ 10 each		Furniture	75,000
1,50,000 Equity shares of ₹ 10 each	15,00,000	Investment	1,55,000

Liabilities	₹	Assets	₹
General Reserve	7,65,000	Stock	3,58,000
Profit and Loss account	1,25,000	Sundry Debtors	72,000
Sundry Creditors	60,000	Cash and Bank	1,40,000
	29,50,000		29,50,000

B Limited

Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000
<u>Issued and fully paid</u>		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash at Bank	20,000
	5,76,000		5,76,000

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

- AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
- AB Ltd. is to purchase the whole of the assets of A Ltd. (except cash and Bank Balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and Bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
- The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
- AB Ltd. is to make a public issue of 60,000, 5% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value.

(Group-I, May 2016, 16 Marks)

Question 44

Anjana Ltd. is absorbed by Sanjana Ltd., the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000) the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each at a premium of 20% fully paid for every five shares in Anjana Ltd.. The number of share of the vendor company are 1,50,000 of ₹ 10 each fully paid.

Calculate purchase consideration as per Accounting Standard-14.

(Group-I, May 2016, 4 Marks)

Question 45

Exe Limited was wound up on 31.3.2004 and its Balance Sheet as on that date was given below:

Equity and Liabilities		₹
Shareholders Funds		
Share Capital: 1,20,000 Equity		
Share of ₹10 each		12,00,000
Reserves and Surplus		
Profit prior to Incorporation		42,000
Contingency Reserve		2,70,000
Profit and Loss Accounts		2,52,000
Current Liabilities		
Bills payable		40,000
Sundry creditors		2,26,000
Provisions:		
Provision for Income tax		2,20,000
		<u>22,50,000</u>
Non Current Assets		₹
Fixed assets		9,64,000
Current Assets		
Stock	7,75,000	
Sundry Debtors	1,60,000	
Less: Provision for bad and doubtful debts	8,000	
Bills Receivable	30,000	
Cash at bank	3,29,000	12,86,000
		<u>22,50,000</u>

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Stock ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹5,10,000 of the consideration was satisfied by the allotment of fully paid 10 % preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹8 per share paid up.

Sundry debtors realized ₹1,50,000. Bills payable was settled for ₹38,000. Income tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹8,000.

You are required to:

- (1) Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.
- (2) Prepare the Realizations account, Cash/bank account, Equity Shareholders account and Wye Limited account in the books of Exe Limited.
- (3) Pass journal entries in the books of Wye Limited.

(Group II-November 2004, 16 Marks)

Question 46

Exe Limited was wound up on 31.3.2013 and its summarized Balance Sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3. 2013

Liabilities	₹	Assets		₹
Share capital:		Fixed assets		9,64,000
1,20,000 Equity shares of ₹10 each	12,00,000	Current assets:		
Reserves and surplus:		Inventory	7,75,000	
Profit prior to incorporation	42,000	Trade receivables	1,82,000	
Contingency reserve	2,70,000	Cash at bank	<u>3,29,000</u>	12,86,000
Profit and loss A/c	2,52,000			
Current liabilities:				
Trade payables	2,66,000			
Provisions:				
Provision for income tax	<u>2,20,000</u>			
	<u>22,50,000</u>			<u>22,50,000</u>

The details of Trade receivables and trade payables are as under:

Trade receivables		
Sundry debtors	1,60,000	
Less: Provision for bad and doubtful debts	<u>(8,000)</u>	1,52,000
Bills receivable		<u>30,000</u>
		<u>1,82,000</u>
Trade payables		
Bills payable		40,000
Sundry creditors		<u>2,26,000</u>
		<u>2,66,000</u>

Wye Limited took over the following assets at values shown as under:

Fixed assets ₹12,80,000, Inventory ₹7,70,000 and Bills Receivable ₹30,000.

Purchase consideration was settled by Wye Limited as under:

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹100 each. The balance was settled by issuing equity shares of ₹10 each at ₹ 8 per share paid up.

Trade receivables realised ₹ 1,50,000. Bills payable was settled for ₹38,000. Income tax authorities fixed the taxation liability at ₹2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 8,000.

You are required to:

- (i) Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.
- (ii) Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.
- (iii) Pass journal entries in the books of Wye Limited.

(Group II-May 2005, 16 Marks)

Question 47

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

(November 2005, 20 Marks)

Question 48

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the summarized Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P ₹	Q ₹	Assets	P ₹	Q ₹
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

- (i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.
- (ii) Liabilities of P includes ₹ 50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.
- (iii) P has goods purchased from Q, cost to him ₹ 10,000. This is included in the Current asset of P as at 31st March, 2007.
- (iv) The assets of P and Q are to be revalued as under:

	P ₹	Q ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- (v) The purchase consideration is to be discharged as under:
 - (a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	P ₹	Q ₹
1st year	2,62,800	2,75,125
IInd year	<u>2, 12,200</u>	<u>2, 49,875</u>
Total	<u>4, 75,000</u>	<u>5, 25,000</u>

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

- Compute the amount of equity and preference shares issued to P and Q.
- Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

(Group II-May 2007, 16 Marks)

Question 49

Following is the Balance Sheet of Y Ltd., as at 31st March 2010:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Issued & paid up:		Goodwill	8,00,000
2,50,000 equity share of ₹ 10 each, ₹ 8 per share paid up	20,00,000	Building	7,00,000
1,00,000 (10%) pref. shares of ₹ 10 each fully paid up	10,00,000	Plant and machinery	13,00,000
Reserves & Surplus		Current Assets	
General reserve	6,00,000	Stock	7,00,000
Profit & Loss A/c	8,00,000	Sundry debtors	9,00,000
Current Liabilities		Bank Balance	6,60,000
Creditors	4,00,000	Misc. Exp.	
Workmen's profit sharing fund	3,00,000	Preliminary Expense	40,000
	51,00,000		51,00,000

X Ltd. decided to absorb the business of Y Ltd., at the respective book value of assets and trade liabilities except Building which was valued at ₹ 12,00,000 and Plant & Machinery at ₹ 10,00,000.

The purchase consideration was payable as follows:

- Payment of liquidation expenses ₹ 5,000 and workmen's profit sharing fund at 10% premium;
- Issue of equity share of ₹ 10 each fully paid at ₹ 11 per share for every pref. share and every equity share of Y Ltd., and a payment of ₹ 4 per equity share in cash.

Calculate the purchase consideration, show the necessary ledger accounts in the books of Y Ltd., and opening Journal Entries in the books of X Ltd.

(Group II-November 2010, 16 Marks)

Question 50

Given below balance sheet of Vasudha Ltd and Vaishali Ltd as at 31st March, 2012.

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	Debtors	2,86,900	1,72,900
General Reserves	1,01,000	65,000	Goodwill	50,000	35,000
Profit & Loss A/c	66,000	43,500	Cash at Bank	98,000	1,09,590
Sundry Creditors	44,400	58,200	Preliminary Expenses	15,000	10,010
Total	7,51,400	5,70,000	Total	7,51,400	5,70,000

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. Stock of Vaishali Ltd. has been shown at 10% above of its cost.

It is decided that Vasudha Ltd. and 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 two companies after putting through the schemes.

(Group II-May 2012, 16 Marks)

Question 51

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(Group II-November 2012, 16 Marks)

Question 52

P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into ₹ 1,00,000 equity shares of ₹ 10.each. The Balance Sheet of the companies as on 31.03.2014 were as under:

P Limited**Balance Sheet as at 31.03.2014**

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	
(b) Reserve & Surplus	1,40,000
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8% Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total Liabilities	3,34,000

Particulars	Amount ₹
II. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000
Plant & Machinery at cost less Depreciation.	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at Bank	30,000
Total Assets	3,34,000

Q Limited
Balance Sheet as at 31.03.2014

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserve & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payable	1,40,000
Total	5,45,000
II. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,90,000
Plant & Machinery at cost less Depreciation.	80,000
Furniture & Fixture at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at Bank	58,000
Total	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

- (i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.
- (ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.
- (iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.
- (iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

- (i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.
- (ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,
- (iii) Write up journal entries including bank entries for closing the books of P Ltd.

(Group II-May 2014, 16 Marks)

Internal Reconstruction

Question 1

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2015 before reconstruction:

Liabilities	₹	Assets	₹
Share Capital: Authorised: 1,50,000 Equity Shares of ₹ 50 each	75,00,000	Fixed Assets:	
Subscribed and Paid up Capital: 50,000 Equity Shares of ₹ 50 each	25,00,000	Goodwill	20,00,000
1,00,000 Equity Shares of ₹ 50 each, ₹ 40 per share paid up	40,00,000	Building	10,00,000
Secured Loans:		Plant	10,00,000
12% First Debentures	5,00,000	Computers	25,00,000
12% Second Debentures	10,00,000	Investments	Nil
Current Liabilities:		Current Assets	Nil
Trade payables	5,00,000	Profit and Loss A/c-Loss	20,00,000
	85,00,000		85,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X ₹	Mr. Y ₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.

- (b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
- (c) Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- (d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

(Study Material)

Question 2

The following is the summarised Balance Sheet of Weak Ltd. as on 31.3.2015:

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	1,00,00,000
Trade payables	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 debenture holders 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.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

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

(Study Material)

Question 3

The following is the summarized Balance Sheet of X Ltd. as on 31st March, 2015:

Liabilities	₹	Assets	₹
12,000, 10% Preference shares of ₹ 100 each	12,00,000	Goodwill	90,000
24,000, Equity shares of ₹ 100 each	24,00,000	Land & building	12,00,000
10% Debentures	6,00,000	Plant & machinery	18,00,000
Bank overdraft	6,00,000	Inventories	2,60,000
Trade payables	3,00,000	Trade receivables	2,80,000
		Cash	30,000
		Profit & Loss Account	14,40,000
	51,00,000		51,00,000

On the above date, the company adopted the following scheme of reconstruction:

- (i) The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.
- (ii) The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.
- (iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
- (iv) The debit balance of profit and loss account and intangible assets are to be eliminated.
- (v) Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet. *(Study Material)*

Question 4

The following scheme of reconstruction has been approved for Win Limited:

- (i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, the following:
 - (a) New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
 - (b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
 - (c) ₹ 40,000, 8% Debentures.
- (ii) An issue of ₹ 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
- (iii) Goodwill which stood at ₹ 1,40,000 was completely written off.
- (iv) Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.
- (v) Freehold property which stood at ₹ 1,50,000 was written down by ₹ 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

(Study Material)

Question 5

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14.

Or

What disclosures should be made in the first financial statements following the amalgamation?

(Study Material)

Question 6

The summarised Balance Sheet of M/s. Ice Ltd. as on 31-03-2015 is given below:

Liabilities	₹	Assets	₹
1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	Freehold property	5,50,000
4,000, 8% Preference shares of ₹ 100 each fully paid	4,00,000	Plant and machinery	2,00,000
6% Debentures (secured by freehold property)	4,00,000	Trade investment (at cost)	2,00,000
Arrear interest	<u>24,000</u>	Trade receivables	4,50,000
Trade payables	1,01,000	Inventories-in trade	3,00,000
Director's loan	<u>3,00,000</u>	Profit and loss account	5,25,000
	<u>22,25,000</u>		22,25,000

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

- (i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.
- (ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.
- (iii) Debentureholders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (iv) Arrear debenture interest to be paid in cash.
- (v) Remaining freehold property to be valued at ₹ 4,00,000. (vi) Investment sold out for ₹ 2,50,000.
- (vii) 75% of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.
- (viii) 40% of Trade receivables, 80% of Inventories and 100% of debit balance of profit and loss account to be written off.
- (ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

(Study Material)

Question 7

The Balance Sheet of M/s. Cube Limited as on 31-03-2015 is given below:

Particulars	Note No.	Amount (₹ in lakh)
<u>Equity & Liabilities</u>		
<u>Shareholders' Funds</u>		
Shares' Capital	1	700
Reserves & Surplus	2	(261)
<u>Non-Current Liabilities</u>		
Long term Borrowings		350
<u>Current Liabilities</u>	3	
Trade Payables		
Other Liabilities	4	51
Total	5	12
<u>Assets</u>		852
<u>Non-Current Assets</u>		
<u>Fixed Assets</u>		
Tangible Assets	6	375
<u>Current Assets</u>		
Current Investments		
Inventories	7	100
Trade Receivables	8	150
Cash & Cash Equivalents	9	225
Total	10	2
		852

Notes to Accounts:

	₹ in Lakhs
(1) Share Capital	
Authorised:	
100 lakh shares of ₹ 10 each	1,000
4 lakh, 8% Preference Shares of ₹ 100 each	<u>400</u>
	<u>1,400</u>
Issued, Subscribed and paid up:	
50 lakh Equity Shares of ₹ 10 each, full paid up	500
2 lakh 8% Preference Shares of ₹ 100 each, fully paid up	<u>200</u>
	<u>700</u>
	Total
(2) Reserves and Surplus	
Debit balance of Profit & Loss A/c	(261)
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	200
Directors' Loan	<u>150</u>
	<u>350</u>

(4)	Trade Payables	
	Trade payables for Goods	51
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	12
(6)	Tangible Assets	
	Freehold Property	275
	Plant & Machinery	<u>100</u>
		<u>375</u>
(7)	Current Investment	
	Investment in Equity Instruments	100
(8)	Inventories	
	Finished Goods	150
(9)	Trade Receivables	
	Trade receivables for Goods	225
(10)	Cash and Cash Equivalents	
	Balance with Bank	2

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3 rd, Equity Shares of ₹ 2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash. (5) Remaining Freehold Property to be valued at ₹ 200 lakh.
- (6) All investments sold out for ₹ 125 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
- (8) 40% of Trade receivables and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to :

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Reconstruction Account; and
- (c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(Study Material)

Question 8

The following is the summarized Balance Sheet of Rocky Ltd. as at March 31, 2013:

	₹ in lacs
Liabilities	
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade payables	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
	<u>1,173</u>
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Inventory	142
Trade receivables	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390
	<u>1,173</u>

The following scheme of internal reconstruction was framed, approved by the Tribunal all the concerned parties and implemented:

- (i) All the equity shares be converted into the same number of fully-paid equity shares of ₹2.50 each.
- (ii) Directors agree to forego their outstanding remuneration.
- (iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.
- (iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.
- (v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under:

	₹ in lacs
Land and building	230
Plant and Machinery	220
Inventory	120
Trade receivables	76

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction.

(Study Material)

Question 9

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(Study Material)

Question 10

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

(Study Material)

Question 11

The summarised Balance Sheet of X Limited as on 31st March 2013, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorised and subscribed capital: 10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Fixed Assets: Machineries	3,50,000
Unsecured loans: 15% Debentures	3,00,000	Current Assets: Inventory	2,53,000
Accrued interest	45,000	Trade receivables	2,30,000
Current Liabilities: Trade payables	52,000	Bank	20,000
Provision for income tax	36,000	Profit & loss A/c	5,80,000
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- Out of shares surrendered 10,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

- (v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.
- (vi) Balance of Profit and Loss account to be written off.
- (vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

(Study Material)

Question 12

The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows:

	Note	Amount ₹	Amount ₹
A. Equity and Liabilities			
1. Shareholders' Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves and Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			5,00,000
(a) Long Term borrowings	3		
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		2,50,000	7,50,000
Total			10,00,000
B. Assets			
1. Non-current assets			
(a) Fixed Assets			
(i) Tangible assets	5	5,50,000	
(ii) Intangible assets	6	1,50,000	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		25,000	3,00,000
Total			10,00,000

Notes to Accounts

		Amount ₹	Amount ₹
1.	Share Capital		
	Authorised, issued & fully paid		
	5,000 equity shares of ₹ 100 each	5,00,000	
	2,500 8% preference shares of ₹ 100 each	2,50,000	7,50,000
2.	Reserves and Surplus		
	Profit and Loss Account		(10,00,000)
3.	Long Term borrowings		
	8% Debentures		5,00,000

		Amount ₹	Amount ₹
4.	Short Term Borrowings		
	Loan from Directors	3,00,000	
	Bank overdraft	<u>2,00,000</u>	5,00,000
5.	Tangible Assets		
	Freehold property	4,00,000	
	Plant	<u>1,50,000</u>	5,50,000
6.	Intangible Assets		
	Goodwill	1,00,000	
	Trademark	<u>50,000</u>	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

- (i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.
- (ii) The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.
- (iii) Loan from directors to be waived off in full.
- (iv) Inventory of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.
- (v) Profit and Loss account balance, Trademark, goodwill and deferred revenue expenditure to be written off.

Pass Journal Entries for all the above mentioned transactions. Also Prepare Capital Reduction account and company's Balance Sheet immediately after reconstruction.

(Study Material)

Question 13

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(Study Material)

Question 14

On 31-12-2012, B Ltd. had 20,000, ₹ 10 Equity Shares as authorised capital and the shares were all issued on which ₹ 8 was paid up. In June, 2013 the company in general meeting decided to sub-divide each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 2014 the company in general meeting resolved to consolidate 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-2012, 31-12-2013 and 31-12-2014.

(Study Material)

Question 15

C Ltd. had ₹ 5,00,000 authorised capital on 31-12-2012 divided into shares of ₹100 each out of which 4,000 shares were issued and fully paid up. In June 2013 the Company decided to convert the issued shares into stock. But in June, 2014 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2012, 31-12-2013 and 31-12-2014.

(Group I-Study Material)

Question 16

Following is the Draft Balance Sheet of ABC Ltd. Co. as at 31st March, 2015:

Liabilities	₹	Assets	₹
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of ₹ 10 each fully paid up	20,00,000	Furniture and fixtures	2,50,000
6,000 8% Preference shares of ₹ 100 each	6,00,000	Patents and copyrights	70,000
9% Debentures	12,00,000	Investments (at cost)	68,000
Bank overdraft	1,50,000	(Market value ₹ 55,000)	
Trade payables	5,92,000	Inventory	14,00,000
		Trade receivables	14,39,000
		Cash and bank balance	10,000
		Profit and Loss Account	<u>4,05,000</u>
	<u>45,42,000</u>		<u>45,42,000</u>

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.
- The company would issue 11% Debentures for ₹ 3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Give necessary journal entries reflecting the above scheme of reconstruction in the books of the ABC Ltd. Co.

(Study Material)

Question 17

The Balance Sheet of A & Co. Ltd. as on 31-12-2014 is as follows:

Assets	₹	₹
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	<u>1,30,000</u>	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	<u>4,25,000</u>	9,10,000
Profit and Loss Account		<u>5,35,000</u>
Total		<u>21,42,500</u>
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000	
75,000 Equity Shares of ₹ 10 each	<u>7,50,000</u>	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	<u>22,500</u>	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	<u>1,00,000</u>	<u>5,95,000</u>
Total		<u>21,42,500</u>

The Court approved a Scheme of re-organisation to take effect on 1-1-2014, whereby:

- (i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- (ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 2 each to be allotted for the remaining quarter.
- (iii) Accrued interest on debentures to be paid in cash.
- (iv) Debenture-holders agreed to take over freehold property, book value ₹ 1,00,000 at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.
- (v) Patents and Goodwill to be written off.
- (vi) Inventory to be written off by ₹ 65,000.
- (vii) Amount of ₹ 68,500 to be provided for bad debts.
- (viii) Remaining freehold property to be re-valued at ₹ 3,87,500.
- (ix) Trade Investments be sold for ₹ 1,40,000.

- (x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each and as to 5% in cash, and balance 5% being waived.
- (xi) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

(Study Material)

Question 18

Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.2015:

Liabilities	Amount ₹	Assets	Amount ₹
Authorised and issued capital:		Building at cost less depreciation	4,00,000
12,000, 7% Preference shares of ₹ 50 each (Note: Preference dividend is in arrear for five years)	6,00,000	Plant at cost less depreciation	2,68,000
15,000 Equity shares of ₹ 50 each	<u>7,50,000</u>	Trademarks and goodwill at cost	3,18,000
	13,50,000	Inventory	4,00,000
Loan	5,73,000	Trade receivables	3,28,000
Trade payables	2,07,000	Profit and loss A/c	4,51,000
Other liabilities	35,000		
	21,65,000		21,65,000

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- (a) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.
- (b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.
- (c) Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.
- (d) The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.
- (e) Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.
- (f) The equity share capital cancelled is to be applied:
 - (i) to write off the debit balance in the profit and loss A/c; and
 - (ii) to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

(Study Material)

Question 19

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital.

The following statement shows the position as regards creditors as on 30th June, 2015:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60 each, ₹ 30 paid up		Property, machinery and plant etc. (Cost ₹ 3,90,000)	
First debentures	3,00,000	Estimated at	1,50,000
Second debentures	6,00,000	Cash in hand of the receiver	<u>2,70,000</u>
Unsecured trade payables	4,50,000	Charged under debentures	4,20,000
		Uncalled capital	<u>1,80,000</u>
			6,00,000
		Deficiency	<u>7,50,000</u>
	13,50,000		13,50,000

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured trade payables for ₹ 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
2. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each, fully paid against their claim for each share of ₹ 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

(Study Material)

Question 20

The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000)	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	<u>2,00,000</u>	TOTAL	<u>4,82,00,000</u>
TOTAL	<u>4,82,00,000</u>		

The following scheme of Internal Reconstruction is sanctioned:

- All the existing equity shares are reduced to ₹ 40 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- Fixed assets are to be written down by 20%.
- Current assets are to be revalued at ₹ 90,00,000.
- Investments are to be brought to their market value.
- One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
- The taxation liability is to be settled at ₹ 3,00,000.
- It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

(Study Material)

Question 21

Following is the Summary Balance Sheet of ABC Ltd. as at 31st March, 2012:

Liabilities	₹	Assets	₹
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of ₹ 10 each fully paid up	20,00,000	Furniture and fixtures	2,50,000
6,000 8% Preference shares of ₹ 100 each	6,00,000	Patents and copyrights	70,000
9% Debentures	12,00,000	Investments (at cost)	68,000
Bank overdraft	1,50,000	(Market value ₹ 55,000)	
Trade payables	5,92,000	Inventory	14,00,000
		Trade receivables	14,39,000
		Cash and bank balance	10,000
		Profit and Loss A/c	<u>4,05,000</u>
	<u>45,42,000</u>		<u>45,42,000</u>

The following scheme of reconstruction was finalised:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

- (ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- (iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- (iv) Investment value to be reduced to market price.
- (v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

(Study Material)

Question 22

S.P. Construction Co. finds itself in financial difficulty. The following is the summarized balance sheet on 31st December 2012:

Liabilities	₹	Assets	₹
Share capital		Land	1,56,000
20,000 Equity Shares of		Building (net)	27,246
₹ 10 each fully paid	2,00,000	Equipment	10,754
5% Cum. Pref. Shares of		Goodwill	60,000
₹ 10 each fully paid	70,000	Investments (Quoted) in shares	27,000
8% Debentures	80,000	Inventory	1,20,247
Loan from Directors	16,000	Trade receivables	70,692
Trade payables	96,247	Profit & Loss Account	39,821
Bank Overdrafts	36,713		
Interest Payable on Debentures	12,800		
	5,11,760		5,11,760

The authorised capital of the company is 20,000 Equity Shares of ₹ 10 each and 10,000 5% Cum. Preference Shares of ₹ 10 each.

During a meeting of shareholders and directors, it was decided to carry out a scheme of internal reconstruction. The following scheme has been agreed:

- (1) The equity shareholders are to accept reduction of ₹ 7.50 per share. And each equity share is to be redesignated as a share of ₹ 2.50 each.
- (2) The equity shareholders are to subscribe for a new share on the basis of 1 for 1 at a price of ₹ 3 per share.
- (3) The existing 7,000 Preference Shares are to be exchanged for a new issue of 3,500 8% Cumulative Preference Shares of ₹ 10 each and 14,000 Equity Shares of ₹ 2.50 each.
- (4) The Debenture holders are to accept 2,000 Equity Shares of ₹ 2.50 each in lieu of interest payable.
The interest rate is to be increased to 9½%. Further ₹ 9,000 of this 9½% Debentures are to be issued and taken up by the existing holders at ₹ 90 for ₹ 100.
- (5) ₹ 6,000 of directors' loan is to be debited. The balance is to be settled by issue of 1,000 Equity Shares of ₹ 2.50 each.
- (6) Goodwill and the profit and loss account balance are to be written off.
- (7) The investment in shares is to be sold at current market value of ₹ 60,000.
- (8) The bank overdraft is to be repaid.

- (9) ₹ 46,000 is to be paid to trade payables now and balance at quarterly intervals.
 (10) 10% of the trade receivables are to be written off.
 (11) The remaining assets were professionally valued and should be included in the books of account as follows:

	₹
Land	90,000
Building	80,000
Equipment	10,000
Inventory	50,000

- (12) It is expected that due to changed condition and new management operating profit will be earned at the rate of ₹ 50,000 p.a. after depreciation but before interest and tax.

Due to losses brought forward it is unlikely that any tax liability will arise until 2014.

You are required to show the necessary journal entries to affect the reconstruction scheme; prepare the balance sheet of the company immediately after the reconstruction.

(Study Material)

Question 23

The Summarised Balance Sheet of Revise Limited as at 31st March, 2012 was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed capital: 10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Fixed Assets : Machineries	1,00,000
Unsecured Loans : 12% Debentures	2,00,000	Current assets : Inventory	
Accrued interest	24,000	Trade receivables	3,20,000
Current liabilities Trade payables	72,000	Bank	2,70,000
Provision for income tax	24,000	Profit and loss account	30,000
	13,20,000		6,00,000
			13,20,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
- The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- Balance of profit and loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

(Study Material)

Question 24

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

(Study Material)

Question 25

What are the conditions that are to be satisfied for 'Amalgamation in the nature of Merger'?

(Study Material)

Past Examination Questions

Question 26

The Balance Sheet of M/s. Ice Ltd. as on 31-3-2011 is given below:

Liabilities	₹	Assets	₹
1,00,000 equity shares of ₹ 10 each fully paid up	10,00,000	Freehold Property	5,50,000
		Plant and Machinery	2,00,000
4,000, 8% preference shares of ₹ 100 each fully paid	4,00,000	Trade investment (at cost)	2,00,000
		Sundry Debtors	4,50,000
6% Debentures 4,00,000 (secured by freehold property)		Stock-in-Trade	3,00,000
		Deferred Advertisement Expenses	50,000
Arrear interest <u>24,000</u>	4,24,000		
Sundry Creditors	1,01,000	Profit and Loss Account	4,75,000
Director's Loan	3,00,000		
	22,25,000		22,25,000

The Board of Directors of the Company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

- (i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.
- (ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.
- (iii) Debenture holders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (iv) Arrear debenture interest to be paid in cash.
- (v) Remaining freehold property to be valued at ₹ 4,00,000.
- (vi) Investment sold out for ₹ 2,50,000.
- (vii) 75% of Director's loan to be waived and for the balance, equity share of ₹ 2 each to be allotted.
- (viii) 40% of sundry debtor, 80% of stock and 100% of deferred advertisement expenses to be written off.

- (ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme.

(Group I-November, 2011, 16 Marks)

Question 27

The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below:

Particulars	Note No.	Amount (₹ in lakh)
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	700
Reserves and Surplus	2	(261)
Non-Current Liabilities		
Long term Borrowings	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash and Cash Equivalents	10	2
Total		852

Notes:

	Amount (₹ in Lakh)
1. Share Capital	
Authorised	
100 lakh Equity Shares of ₹ 10 each	1,000
4 lakh 8% Preference Shares of ₹ 100 each	400
	1,400
Issued, Subscribed and Paid-up	
50 lakh Equity Shares of ₹ 10 each, fully paid up	500
2 lakh 8% Preference Shares of ₹ 100 each, fully paid-up	200
	700

	Amount (₹ in Lakh)
2. Reserves and Surplus Debit balance of profit and loss A/c.	(261)
3. Long Term Borrowings 6% Debentures (Secured by Freehold Property) Directors' Loan	200 150 350
4. Trade Payables Sundry Creditors for Goods	51
5. Other Current Liabilities Interest Accrued and Due on 6% Debentures	12
6. Tangible Assets Freehold Property Plant and Machinery	275 100 375
7. Current Investment Investment in Equity Instruments	100
8. Inventories Finished Goods	150
9. Trade Receivables Sundry Debtors for Goods	225
10. Cash and Cash Equivalents Balance with Bank	2

The Board of directors of the company decided upon the Following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.
- (2) Preference Shares Dividend on arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
- (3) Debenture Holders agreed of take one Freehold Property at its book value of ₹150 lakh in part payment of their holding. Balance debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at ₹ 200 lakh.
- (6) All investments sold out for ₹ 125 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, equity Shares of ₹ 2 each to be allowed.
- (8) 40% of Sundry Debtors and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

- (a) Pass journal Entries for all the transactions related to internal reconstruction.
- (b) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of scheme of internal reconstruction.

(Group I-May 2013, 16 Marks)

Question 28

Pass journal entries for the following transactions:

- (i) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.
- (ii) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of 10 each.
- (iii) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.
- (iv) Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

(Group I-November 2013, 4 Marks)

Question 29

The Balance sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each		Plant & Machinery	22,00,000
Fully paid up	60,00,000	Trade Investment	16,50,000
9% Preference Shares of ₹ 10 each fully paid up	40,00,000	Inventories	9,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Trade Receivables	18,00,000
8% Debentures	17,00,000	Cash and Bank	
Trade Payables	6,00,000	Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

- (1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under:
 - (a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.
 - (b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
 - (c) ₹ 2,80,000, 10% debentures of ₹ 80 each.
- (2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.
- (3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.
- (4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

- (5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.
- (6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.
- (7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
- (8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.
- (9) The land and building to be depreciated by 5%.
- (10) The debit balance of profit and loss account is to be eliminated.
- (11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

(Group I-November 2015, 16 Marks)

Question 30

Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	₹	Assets	₹
Share Capital:		Plant and Machinery	9,00,000
2,00,000 Equity Shares of		Furniture and Fixtures	2,50,000
₹ 10 each fully paid up	20,00,000	Patents and Copyrights	70,000
6,000 8% preference shares of ₹ 100 each	6,00,000	Investments (at cost)	68,000
9% Debentures	12,00,000	(Market value ₹ 55,000)	
Bank overdraft	1,50,000	Stock	14,00,000
Sundry Creditors	5,92,000	Sundry Debtors	14,39,000
		Cash and Bank Balance	10,000
		Profit and Loss A/c	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalised:

- (i) Preference shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
- (ii) Debenture holders having charge on Plant and Machinery would accept Plant and Machinery in full settlement of their dues.
- (iii) Stock equal to ₹5,00,000 in book value will be taken over by Sundry Creditors in full settlement of their dues.
- (iv) Investment value to be reduced to market price.

- (v) The Company would issue 11% Debentures for ₹3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital reduction account and Balance Sheet of the company after internal reconstruction.

(Group II-November, 2007, 16 Marks)

Question 31

A Ltd. take over B Ltd. on April 01, 2015 and discharges consideration for the business as follows:

- (i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.
- (ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.
- (iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate Considerations

(Study Material)

Question 32

Following is the Balance Sheet of XYZ Ltd. as on 31st March, 2010:

Liabilities	₹	Assets	₹
8000 - 7½% Preference shares @ ₹ 100 each fully paid	8,00,000	Plant and Machinery	8,50,000
1,80,000 Equity shares @ ₹ 10 each fully paid	18,00,000	Furniture and Fittings	1,60,000
11% Debentures	10,00,000	Patents and Copy right	60,000
Bank overdraft	1,65,000	Goodwill	35,000
Loan from director	15,000	Investments (at cost)	65,000
Trade creditors	6,20,000	Sundry debtors	12,00,000
		Stock	13,00,000
		Cash in hand	12,000
		Profit & Loss A/c	7,18,000
	44,00,000		44,00,000

Due to heavy losses and overvaluation of Assets, the following scheme of reconstruction was finalised:

- (i) Preference shareholder will surrender their 20% shares and they have been allotted 9% (new) preference shares for remaining amount.
- (ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement.
- (iii) Trade creditors accepted to take over the stock upto the value of ₹ 6,20,000.
- (iv) Equity shareholders are to accept reduction of ₹ 4 per share.
- (v) Investment is to be valued at market price i.e. ₹ 60,000.
- (vi) Sundry debtors and remaining stock is to be valued at 90% of their book value.
- (vii) Directors have to forgo their loan in full.
- (viii) Patents and Copyright and Goodwill have no more value.

Pass necessary Journal entries in the books of XYZ Ltd. assuming that all the legal formalities have been completed. Prepare Capital reduction account and Balance Sheet of the company after reduction.

(Group II-May 2010, 16 Marks)

Question 33

The summarised Balance Sheet of X Limited as on 31st March 2012, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorised and subscribed capital: 10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Fixed Assets: Machineries	3,50,000
Unsecured loans: 15% Debentures	3,00,000	Current Assets: Inventory	2,53,000
Accrued interest	45,000	Trade receivables	2,30,000
Current Liabilities: Trade payables	52,000	Bank	20,000
Provision for income tax	36,000	Profit & loss A/c	5,80,000
	14,33,000		14,33,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- Out of shares surrendered 10,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.
- Balance of Profit and Loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

(Group II-May 2011, 16 Marks)

Question 34

The summarized Balance Sheet of Bad Luck Ltd. as on 31st March, 2013 was as follows:

	Note	Amount ₹	Amount ₹
A. Equity and Liabilities			
1. Shareholder's Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves and Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			
(a) Long Term borrowings	3		5,00,000

	Note	Amount ₹	Amount ₹
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		2,50,000	7,50,000
	Total		10,00,000
B. Assets			
1. Non-current assets			
(a) Fixed assets			
(i) Tangible assets	5	5,50,000	
(ii) Intangible assets	6	1,50,000	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		25,000	3,00,00
	Total		10,00,000

Notes to Accounts	Amount ₹	Amount ₹
1. Share Capital		
Authorised, issued & fully paid		
5,000 equity shares of ₹ 100 each	5,00,000	
2,500 8% preference shares of ₹ 100 each	2,50,000	7,50,000
2. Reserves and Surplus		
Profit and Loss Account		(10,00,000)
3. Long Term borrowings		
8% Debentures		5,00,000
4. Short Term Borrowings		
Loan from Directors	3,00,000	
Bank overdraft	2,00,000	5,00,000
5. Tangible Assets		
Freehold property	4,00,000	
Plant	1,50,000	5,50,000
6. Intangible Assets		
Goodwill	1,00,000	
Trademark	50,000	1,50,000

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

- (i) The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.
- (ii) The debenture holders to the takeover freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.
- (iii) Loan from directors to be waived off in full.
- (iv) Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.
- (v) Profit and Loss account balance, Trademark, goodwill and deferred revenue Pass Journal Entries for all the above mentioned transactions. Also, Prepare Capital Reduction account and company's Balance Sheet immediately after reconstruction.

(Group II-May 2013, 16 Marks)

Question 35

The Balance Sheet of X Ltd. as on 31st March 2014 was as follows:

X Limited Balance Sheet as at 31.03.2014

	Particulars	Amount (₹)
I	Equity and Liabilities	
1	Shareholder's Fund	
	Share Capital	
	(a) 40,000 equity shares of ₹ 100 each fully paid	40,00,000
	(b) 20,000 10% preference shares of ₹ 100 each fully paid	20,00,000
	Reserve & Surplus	
	(a) Securities Premium Account	1,50,000
	(b) Profit & Loss Account	(23,00,000)
2	Non Current Liabilities	
	Long Term Borrowings	
	7% Debentures of ₹ 100 each	4,00,000
3	Current Liabilities	
	Other Current Liabilities	
	(a) Creditors	10,00,000
	(b) Loan from Director	2,00,000
	Total Liabilities	54,50,000
II	Assets	
	Non Current Assets	
	Fixed Assets	
	(a) Land & Building	20,00,000
	(b) Plant & Machinery	<u>12,00,000</u>
	Intangible Assets	
	Goodwill	4,00,000

	Particulars	Amount (₹)
2	Current Assets	
	(a) Debtors	12,00,000
	(b) Stock	5,00,000
	(c) Cash at Bank	<u>1,50,000</u>
	Total Assets	18,50,000
		54,50,000

No Dividend on Preference Shares has been paid for last 5 years.

The following scheme of reorganisation was duly approved by the Court:

- (i) Each equity share to be reduced to ₹ 25.
- (ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.
- (iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.
- (iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.
- (v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.
- (vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.
- (vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.
- (viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transaction.

(Group II-November 2014, 16 Marks)

Question 36

A Ltd. take over B Ltd. on April 01, 2015 and discharges consideration for the business as follows:

- (i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.
- (ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.
- (iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate Considerations

(Group II-May, 2015, 16 Marks)

Question 37

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015:

A. Equity & Liabilities:	₹
1. Shareholder's Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹100 each fully paid	9,00,000
10,000 Equity Shares of ₹100 each fully paid	10,00,000
(b) Reserve & Surplus:	
Profit & Loss Account	(2,00,000)
2. Non-current liabilities:	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions:	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	1,25,000
Total	24,90,000
B. Assets	₹
1. Non-current Assets:	
Tangible Assets:	
Bombay Works	9,50,000
Chennai Works	7,75,000
2. Investment:	
Investments for Workman's Compensation Fund	15,000
3. Current Assets:	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	50,000
Total	24,90,000

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

- (i) Paid up value of 7% Preference Share to be reduced to ₹80, but the rate of dividend being raised to 9%.
- (ii) Paid up value of Equity Shares to be reduced to ₹10.
- (iii) The directors to refund ₹50,000 of the fees previously received by them.
- (iv) Debenture holders forego their interest of ₹26,000 which is included among the Sundry Creditors.
- (v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

- (vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹4,25,000 and to accept an allotment of 1,500 equity shares of ₹10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹10 each fully paid at par to Star Ltd.
- (vii) The Chennai Workmen's compensation fund disclosed that there were actual liabilities of ₹1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
- (viii) Stock was to be written off by ₹1,90,000 and a provision for doubtful debts is to be made to the extent of ₹20,000.
- (ix) Chennai Works completely written off.
- (x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value to Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.
(Group II-November 2015, 16 Marks)

Question 38

Proficient Infosoft Ltd. is in the hands of a Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2016:

Liabilities	₹	Assets	₹
8000 shares of ₹ 100 each ₹ 60 paid up	-	Property (cost is ₹ 3,80,800) estimated at	1,08,000
First Debentures	3,60,000	Plant & Machinery	
Second Debentures	7,80,000	(Cost is ₹ 2,87,200)	
Unsecured trade payables	5,40,000	estimated at	72,000
		Cash in hand of the receiver	3,24,000
			5,04,000
		Uncalled Capital	3,20,000
			8,24,000
		Deficiency	8,56,000
	16,80,000		16,80,000

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

- (i) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.
- (ii) B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.
- (iii) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100.

The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

- (iv) Uncalled capital is to be called up in full and ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

(Group I, November 2016, 16 Marks)

Accounting Standards

AS 4: Contingencies and Events Occurring after the Balance Sheet Date

Question 1

You are an accountant preparing accounts of A Ltd. as on 31.3.2011. After year end the following events have taken place in April, 2011:

- (i) A fire broke out in the premises damaging, uninsured stock worth ₹ 10 lakhs (Salvage value ₹ 2 lakhs).
- (ii) A suit against the company's advertisement was filed by a party claiming damage of ₹ 20 lakhs.

Describe, how above will be dealt with in the accounts of the company for the year ended on 31.3.2011.

(Practice Manual)

Question 2

MEC Limited could not recover an amount of ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company for the year ended 31-3-2011 were finalized by making a provision @ 25% of the amount due from that debtor. In May 2011, the debtor became bankrupt and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in books of account for the year ended 31-3-2011?

(Practice Manual)

Question 3

A major fire has damaged the assets in a factory of a Limited Company on 5th April – five days after the year end and closure of accounts. The loss is estimated at ₹ 10 crores out of which ₹ 7 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.

(Practice Manual)

Question 4

A Company entered into an agreement to sell its immovable property to another company for ₹ 35 lakhs. The property was shown in the Balance Sheet at ₹ 7 lakhs. The agreement to sell was concluded on 15th February, 2011 and sale deed was registered on 30th April, 2011.

You are required to state, with reasons, how this event would be dealt with in the financial statements for the year ended 31st March, 2011.

(Practice Manual)

Question 5

In Raj Co. Ltd., theft of cash of ₹ 2 lakhs by the cashier in January, 2011 was detected in May, 2011. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2011. Decide.

(Practice Manual)

Question 6

A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

(Practice Manual)

Question 7

While preparing its final accounts for the year ended 31st March 2010, a company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the first week of March 2010, a debtor for ₹ 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2010 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2010.

(Practice Manual)

Question 8

In preparing the financial statements of Lotus Limited for the year ended 31st March, 2010 you come across the following information. State with reason, how you would deal with this in the financial statements?

The company invested ₹ 50 lakhs in April, 2010 in the acquisition of another company doing similar business, the negotiations for which had just started.

(Practice Manual)

Question 9

Cashier of A-One Limited embezzled cash amounting to ₹ 6,00,000 during March, 2012. However same comes to the notice of Company management during April, 2012 only. Financial statements of the company is not yet approved by the Board of Directors of the company. With the help of provisions of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date" decide, whether the embezzlement of cash should be adjusted in the books of accounts for the year ending March, 2012?

What will be your reply, if embezzlement of cash comes to the notice of company management only after approval of financial statements by the Board of Directors of the company?

(Practice Manual)

Question 10

Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2013, the company wants to recognize receipt of cheques bearing date 31st March, 2013 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques are presented to the bank in the month of April 2013 and are also realized in the same month in normal course after deposit in the bank. State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard.

- (i) Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.
- (ii) Cheques sent by the stockists through courier on or before 31st March, 2013.

(Practice Manual)

Question 11

State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013:

- (i) An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on 15th April, 2013.
- (ii) The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.

(Practice Manual)

Question 12

In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March, 2014, a debtor of ₹ 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured.

State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.

(Practice Manual)

Question 13

A Ltd., whose accounting year ends on 31/03/2013, agreed in principle to sell a plot of land on 18/03/2013 at a price to be determined by an independent valuer. Pending the agreement for sale and due to non-receipt of valuers report, the sale of the land could not be completed up to 31/03/13. The company received the report on April 7, 2013 and the agreement was signed on April 10, 2013. The financial statements for 2012-13 were approved by the board on May 12, 2013.

(Study Material)

Answer: The sale of land is an event occurring after the balance sheet date. Also, the condition, which led to the sell, existed on the balance sheet date. The signing of the agreement provides further evidence as to the condition that existed on the balance sheet date. The sale of land after the balance sheet date is therefore an adjusting event, which means the sale transaction should be recorded in books of A Ltd. for the purpose of its financial statements for 2012-13.

Question 14

An earthquake destroyed a major warehouse of C Ltd. on April 20, 2013. The last accounting year of the company ended on 31/03/13 and the financial statements for the year were approved on May 8, 2013.

(Study Material)

Answer: The destruction of warehouse is a significant event occurring after the balance sheet date, but since the earthquake did not exist on the balance sheet date, the destruction by earthquake is a non-adjusting event. The value of property lost by earthquake therefore need not be recognised in financial statement of 2012-13

The Report of the Directors* for 2012-13 should disclose the fact of earthquake together with an estimate of loss on earthquake. If no estimate of loss can be made, the report should state that loss on earthquake could not be estimated.

Question 15

A company follows April-March as its financial year. The company recognizes cheques dated 31st March or before, received from customers after balance sheet date but before approval of financial statement by debiting Cheques in hand A/c and crediting the Debtors A/c. The Cheques in hand is shown in balance sheet as an item of cash and cash equivalents. All Cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank.

(Study Material)

Answer: Even if the cheques bear the date 31st March or before, the cheques received after 31st March do not represent any condition existing on 31st March. Thus the collection of cheques after balance sheet date is not an adjusting event. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise, and so no disclosure of such collections in the Directors' Report is necessary.

Question 16

In X Co. Ltd., theft of cash of ₹ 5 lakhs by the cashier in January, 2013 was detected only in May, 2013. The accounts of the company were not yet approved by the Board of Directors of the company.

Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2013. Decide.

(Study Material)

Question 17

An earthquake destroyed a major warehouse of ACO Ltd. on 20.5.2012. The accounting year of the company ended on 31.3.2012. The accounts were approved on 30.6.2012. The loss from earthquake is estimated at ₹ 30 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

(Study Material)

* These events, however, are disclosed in the financial statements instead of report of directors as per Exposure Draft on Limited Revision to AS 4. However, it is pertinent to note that this Limited Revision has not yet been notified by the Govt.

Question 18

A company has filed a legal suit against the debtor from whom ₹ 15 lakh is recoverable as on 31.3.2012. The chances of recovery by way of legal suit are not good as per legal opinion given by the counsel in April, 2012. Can the company provide for full amount of ₹ 15 lakhs as provision for doubtful debts? Discuss in detail.

(Study Material)

Question 19

During the year 2012-2013, Raj Ltd. was sued by a competitor for ₹ 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of ₹ 10 lakhs in its financial statements for the year ended 31st March, 2013. On 18th May, 2013, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of ₹ 14 lakhs. The financial statements were prepared by the company's management on 30th April, 2013, and approved by the board on 30th May, 2013.

(Study Material)

Question 20

A Limited Company closed its accounting year on 30.6.13 and the accounts for that period were considered and approved by the board of directors on 20th August, 2013. The company was engaged in laying pipe line for an oil company deep beneath the earth. While doing the boring work on 1.9.2013 it had met a rocky surface for which it was estimated that there would be an extra cost to the tune of ₹ 80 lakhs. You are required to state with reasons, how the event would be dealt with in the financial statements for the year ended 30.6.13.

(Study Material)

Question 21

While preparing its final accounts for the year ended 31st March, 2013 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2013 a debtor for ₹ 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2013 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2013?

(Study Material)

Past Examination Questions

Question 22

A major fire has damaged assets in a factory of X Co. Ltd. on 8.4.2004, 8 days after the year end closing of accounts. The loss is estimated to be ₹ 16 crores (after estimating the recoverable amount of ₹ 24 crores from the Insurance Company).

If the company had no insurance cover, the loss due to fire would be ₹ 40 crores.

Explain, how the loss should be treated in the Final accounts of the year ended 31.3.2004.

(May, 2005, 4 Marks)

Question 23

ABC Ltd. could not recover ₹ 10 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company were finalized for the year ended 31.3.2005 by making a provision @ 20% of the amount due from the said debtor. The debtor became bankrupt in April, 2005 and nothing is recoverable from him.

Do you advise the company to provide for the entire loss of ₹ 10 lakhs in the books of account for the year ended 31st March, 2005?

(November 2005, 4 Marks)

Question 24

X Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 10 lacs to another company for ₹ 15 lacs. The agreement to sell was concluded on 28th February, 2006 and the sale deed was registered on 1st May, 2006. Comment with reference to AS 4.

(November 2006, 4 Marks)

Question 25

In X Co. Ltd., theft of cash of ₹ 5 lakhs by the cashier in January, 2007 was detected only in May, 2007. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2007. Decide.

(May 2007, 2 Marks)

Question 26

An earthquake destroyed a major warehouse of ACO Ltd. on 20.5.2009. The accounting year of the company ended on 31.3.2009. The accounts were approved on 30.6.2009. The loss from earthquake is estimated at ₹ 30 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company?

(November 2009, 2 Marks)

Question 27

A Company follows April to March as its Financial Year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of Financial statement by debiting cheques in hand A/c and crediting Debtors A/c. The cheques in hand is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?

(May, 2010, 2 Marks)

Question 28

While preparing its final accounts for the year ended 31st March 2010, a company made a provision for bad-debts @ 4% of its total debtors (as per trend follows from the previous years). In the first week of March 2010 a debtor for ₹ 3,00,000 had suffered heavy loss due to an earthquake; the loss was not covered by an insurance policy. In April 2010 the debtor become a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March 2010.

(November, 2010 & November 2011, 5 Marks)

Question 29

Cashier of A-One Limited embezzled cash amounting to ₹6,00,000 during March, 2012. However same comes to the notice of the company management during April, 2012 only. Financial Statements of the company is not yet approved by the Board of Directors of the company. With the help of provisions AS 4 "Contingencies and events occurring after the Balance Sheet Date" decide whether the embezzlement of cash should be adjusted in the books of accounts for the year ending March, 2012?

What will be your reply, if embezzlement of cash comes to the notice of company management only after approval of financial statements by the Board of Directors of the company?

(May 2012, 4 Marks)

Question 30

Neel Limited has its corporate office in Mumbai and sells its products to stockists all over India. On 31st March, 2013, the company wants to recognize receipt of cheques bearing date 31st March, 2013 or before, as "Cheques in Hand" by reducing "Trade Receivables". The "Cheques in Hand" is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques are presented to the bank in the month of April 2013 and are also realized in the same month in normal course after deposit in the bank. State with reasons, whether each of the following is an adjusting event and how this fact is to be disclosed by the company, with reference to the relevant accounting standard.

- (i) Cheques collected by the marketing personnel of the company from the stockists on or before 31st March, 2013.
- (ii) Cheques sent by the stockists through courier on or before 31st March, 2013.

(May 2013, 4 Marks)

Question 31

State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013:

- (i) An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on 15th April, 2013.
- (ii) The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.

(November 2013, 5 Marks)

Question 32

In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March, 2014, a debtor of ₹ 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured.

State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.

(May 2014, 5 Marks)

Question 33

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

- (i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.
- (ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.
- (iii) It sends a proposal to purchase an immovable property for ₹ 30 lakhs in March. The book value of the property is ₹ 20 lakhs as on year end date. However, the deed was registered as on 15th April.
- (iv) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was ₹ 40 lakhs.
- (v) Theft of cash of ₹ 2 lakhs by the cashier on 31st March but was detected the next day after the financial statements have been approved by the Directors.

(May 2016, 5 Marks)

Question 34

While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for ₹20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

Comment with reference to relevant Accounting Standard.

(November, 2016, 5 Marks)

Question 35

The Board of Directors of M/s New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹2 per equity share (on 2 crore fully paid up equity shares of ₹10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders. Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and Other Statutory Requirements.

(Group I-May 2017, 5 Marks)

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

Question 1

When can a company change its accounting policy?

(Practice Manual)

Question 2

A limited company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2010-2011.

Subsequently on a review of the credit period allowed and financial capacity of the customers, the company decided to increase the provision to 8% on debtors as on 31.3.2011. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard can this revision be considered as an extraordinary item or prior period item?

(Practice Manual)

Question 3

X Co. Ltd. signed an agreement with its employees union for revision of wages in June, 2012. The wage revision is with retrospective effect from 1.4.2008. The arrear wages upto 31.3.2012 amounts to ₹ 80 lakhs. Arrear wages for the period from 1.4.2012 to 30.06.2012 (being the date of agreement) amounts to ₹ 7 lakhs.

Decide whether a separate disclosure of arrear wages is required.

(Practice Manual)

Question 4

Goods of ₹ 5,00,000 were destroyed due to flood in September, 2009. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2012, the claim was passed and the company received a payment of ₹ 3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2012.

(Practice Manual)

Question 5

S.T.B. Ltd. makes provision for expenses worth ₹ 7,00,000 for the year ending March 31, 2011, but the actual expenses during the year ending March 31, 2012 comes to ₹ 9,00,000 against provision made during the last year. State with reasons whether difference of ₹ 2,00,000 is to be treated as prior period item as per AS-5.

(Practice Manual)

Question 6

A company created a provision of ₹ 75,000 for staff welfare while preparing the financial statements for the year 2010-11. On 31st March, in a meeting with staff welfare association, it was decided to increase the amount of provision for staff welfare to ₹ 1,00,000. The accounts were approved by Board of Directors on 15th April, 2011

Explain the treatment of such revision in financial statements for the year ended 31st March, 2011

(Practice Manual)

Question 7

Give two examples on each of the following items:

- (i) Change in Accounting Policy
- (ii) Change in Accounting Estimate
- (iii) Extra Ordinary Items
- (iv) Prior Period Items.

(Practice Manual)

Question 8

Cost of a machine acquired on 01.04.2009 was ₹ 5,00,000. The machine is expected to realize ₹50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 per year has been charged upto 2011-2012. For and from 2012-13, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2009. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2013 in the light of AS 5.

(Practice Manual)

Question 9

Closing Stock for the year ending on 31st March, 2013 is ₹ 1,50,000 which includes stock damaged in a fire in 2011-12. On 31st March, 2012, the estimated net realizable value of the damaged stock was ₹ 12,000. The revised estimate of net realizable value of damaged stock included in closing stock at 2012-13 is ₹ 4,000. Find the value of closing stock to be shown in Profit and Loss Account for the year 2012-13, using provisions of Accounting Standard 5.

(Practice Manual)

Question 10

An extract from the statement profit and loss of a company for 2012-13 is given below:

	₹ 000	₹ 000
Sales		3,000
Opening stock	500	
Production cost	2,800	
	3,300	
Less: Closing Stock	(600)	(2,700)
Gross Profit		300
Expenses		(250)
Profit before tax		50
Tax		20
Profit after tax		30

The closing stock includes stock damaged in a fire in 2011-12. On 31/03/12, the estimated net realisable value of this stock was ₹ 15,000. The revised estimate of net realisable value of the damaged stock included in closing stock of 2012-13 is ₹ 5,000.

Rewrite the statement of profit and loss if necessary to comply with requirements of AS 5.

(Study Material)

Question 11

Cost of a machine acquired on 01/04/2010 was ₹ 1,00,000. The machine is expected to realise ₹ 5,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 9,500 per year has been charged upto 2011-12. For and from 2012-13, the company switched over to 17% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 13 years. The new rate shall apply with retrospective effect from 01/04/10.

(Study Material)

Question 12

The company finds that the stock sheets of 31.3.2012 did not include two pages containing details of inventory worth ₹ 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2013 with reference to AS 5. (Study Material)

Question 13

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

- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹20,000 per month. Earlier there was no such scheme of pension in the organization.

(Study Material)

Question 14

How would you deal with the following in the annual accounts of a company for the year ended 31st March, 2013?

- (a) The company has to pay delayed cotton clearing charges over and above the negotiated price for taking delayed delivery of cotton from the Suppliers' Godown. Up to 2011-12, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2011-12. This would result into decrease in profit by ₹ 7.60 lakhs
- (b) Fuel surcharge is billed by the State Electricity Board at provisional rates. Final bill for fuel surcharge of ₹ 5.30 lakhs for the period October, 2005 to September, 2011 has been received and paid in February, 2012.

(Study Material)

Question 15

In preparing the financial statements of R Ltd. for the year ended 31st March, 2013, you come across the following information. State with reasons, how you would deal with this in the financial statements:

The company invested 100 lakhs in April, 2013 in the acquisition of another company doing similar business, the negotiations for which had started during the financial year.

(Study Material)

Past Examination Questions

Question 16

What is meant by accounting estimate? Give two examples for accounting estimate.

(November 2007, 2 Marks)

Question 17

When can an item qualify to be a prior period item as per AS 5?

(May 2008, 4 Marks)

Question 18

The company finds that the stock sheets of 31.3.2007 did not include two pages containing details of inventory worth ₹ 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd., for the year ended 31st March, 2008 with reference to AS 5.

(November 2008, 4 Marks)

Question 19

Explain the provisions of AS -5 regarding accounting treatment of prior period items.

(June 2009, 4 Marks)

Question 20

Goods worth ₹5,00,000 were destroyed due to flood in September, 2006. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2006-07.

In March, 2008, the claim was passed and the company received a payment of ₹3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2008.

(November, 2009 & May 2011, 2 Marks)

Question 21

Tiger Motor Car Limited signed an agreement with its employees union for revision of wages on 01.07.2011. The revision of wages is with retrospective effect from 01.04.2008. The arrear wages up to 31.03.2011 amounts to ₹40,00,000 and that for the period from 01.04.2011 to 01.07.2011 amount to ₹3,50,000. In view of the provisions of AS 5 "Net profit or Loss for period, Prior Period Items and changes in accounting policies", decide whether a separate disclosure of arrear wages is required while preparing financial statements for the year ending 31.03.2012.

(May 2012, 4 Marks)

Question 22

Give two examples on each of the following items:

- (i) Change in Accounting Policy
- (ii) Change in Accounting Estimate
- (iii) Extra Ordinary Items
- (iv) Prior Period Items

(November 2012, 4 Marks)

Question 23

Closing Stock for the year ending on 31st March, 2013 is ₹ 1,50,000 which includes stock damaged in a fire in 2011-12. On 31st March, 2012, the estimated net realizable value of the damaged stock was ₹ 12,000. The revised estimate of net realizable value of damaged stock included in closing stock at 2012-13 is ₹ 4,000. Find the value of closing stock to be shown in Profit and Loss Account for the year 2012-13, using provisions of Accounting Standard 5.

(May 2013, 5 Marks)

Question 24

Cost of a machine acquired on 01.04.2009 was ₹ 5,00,000. The machine is expected to realize ₹ 50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 for the year has been charged upto 2011-12. For and from 2012-13, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2009. State how would you deal with the above in the annual accounts of the company for the year ended 31st March, 2013 in the light of AS-5.

(November 2013, 5 Marks)

Question 25

Give **two** examples of each of the following items:

- (i) Change in Accounting Policy
- (ii) Change in Accounting Estimate
- (iii) Extra Ordinary Items
- (iv) Prior Period Item

(November 2014, 4 Marks)

Question 26

M/s AB Ltd. is in the process of finalizing its account for the year ended 31st March, 2015. The company seeks your advice on the following:

- (i) The company's sale tax assessment for assessment year 2012-13 has been completed on 14th February, 2015 with a demand of ₹ 5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹ 3.70 crore.
- (ii) The company has entered into a wage agreement in May 2015 whereby the labour union has accepted a revision in wage from June 2014. The agreement provides that the hike till May 2015 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September 2015.

(May 2016, 5 Marks)

Question 27

M/s ABC Ltd. purchased fixed assets for ₹ 50,00,000. Government grant received towards it is 20%. Residual value is ₹ 8,00,000 and useful life is 8 years. Assumed depreciation is on the basis of Straight Line Method. Asset is shown in the Balance Sheet net of grant. After one year, grant becomes refundable to the extent of ₹ 7,00,000 due to non-compliance of certain conditions.

Pass Journal entries for 2nd year in the books of the company.

(May 2016, 5 Marks)

AS 7: Construction Contracts

Question 1

What are the disclosure requirements of AS-7 (Revised)?

(Practice Manual)

Question 2

B Ltd. undertook a construction contract for ₹ 50 crores in April, 2014. The cost of construction was initially estimated at ₹ 35 crores. The contract is to be completed in 3 years. While executing the contract, the company estimated the cost of completion of the contract at ₹ 53 crores.

Can the company provide for the expected loss in the book of account for the year ended 31st March, 2015?

(Practice Manual)

Question 3

M/s Excellent Construction Company Limited undertook a contract to construct a building for ₹ 3 crore on 1st September, 2014. On 31st March, 2015 the company found that it had already spent ₹ 1 crore 80 lakhs on the construction. Prudent estimate of additional cost for completion was ₹ 1 crore 40 lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2015, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)"?

(Practice Manual)

Question 4

M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at ₹ 150 crores. Up to 31.03.2014 the company incurred ₹ 120 crores on the construction. The engineers involved in the project estimated that a further ₹ 45 crores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s. Highway Constructions.

(Practice Manual)

Question 5

X Ltd. commenced a construction contract on 01/04/13. The fixed contract price agreed was ₹ 2,00,000. The company incurred ₹ 81,000 in 2013-14 for 45% work and received ₹ 79,000 as progress payment from the customer. The cost incurred in 2014-15 was ₹ 89,000 to complete the rest of work. Calculate Profit

(Study Material)

Question 6

X Ltd. commenced a construction contract on 01/04/13. The contract price agreed was reimbursable cost plus 20%. The company incurred ₹ 1,00,000 in 2013-14, of which ₹ 90,000 is reimbursable. The further non-reimbursable costs to be incurred to complete the contract are estimated at ₹ 5,000. The other costs to complete the contract could not be estimated reliably. Prepare Profit & Loss extracts

(Study Material)

Answer: The Profit & Loss A/c extract of X Ltd. for 2013-14 is shown below:

Profit & Loss Account

	₹ 000		₹ 000
To Construction Costs	100	By Contract Price	108
To Provision for loss	5		
To Profit	3		
	108		108

Question 7

Show Profit & Loss A/c (Extract) in books of a contractor in respect of the following data.

	₹ 000
Contract price (Fixed)	600
Cost incurred to date	390
Estimated cost to complete	260

(Study Material)

Question 8

Mr. Shyam, a construction contractor undertakes the construction of an industrial complex. He has separate proposals raised for each unit to be constructed in the industrial complex. Since each unit is subject to separate negotiation, he is able to identify the costs and revenues attributable to each unit. Should Mr. Shyam treat construction of each unit as a separate construction contract according to AS 7?

(Study Material)

Question 9

A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2013.

	(₹ in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by your institute.

(Study Material)

Question 10

On 1st December, 2014, Vishwakarma Construction Co. Ltd. undertook a contract to construct a building for ₹ 85 lakhs. On 31st March, 2015 the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion was ₹ 32,01,000. Calculate total estimated loss on contract and what amount should be charged to revenue in the final accounts for the year ended 31st March, 2015 as per provisions of Accounting Standard 7 (Revised)?

(Study Material)

Past Examination Questions

Question 11

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 recognize the loss in the financial statements prepared for the year ended 31.3.2007?

(May 2007, 2 Marks)

Question 12

Explain contract costs as per Accounting Standard-7 related to 'Construction Contracts'.

(November 2009, 2 Marks)

Question 13

An amount of ₹9,90,000 was incurred on a contract work upto 31-03-2010. Certificates have been received to date to the value of ₹12,00,000 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 Profit and Loss Account as per AS 7.

(November 2010, 4 Marks)

Question 14

From the following data, show Profit and Loss Account (Extract) as would appear in the books of a contractor following Accounting Standard-7:

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

(November 2011, 4 Marks)

Question 15

M/s Excellent Construction Company Limited undertook a contract to construct a building for ₹3 Crore on 1st September, 2011. On 31st March, 2012 the company found that it had already spent ₹1 Crore 80 Lakhs on the construction. Prudent estimate of additional cost for completion was ₹1 Crore 40 Lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2012, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)"?

(May 2012, 5 Marks)

Question 16

M/s. Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at ₹150 crores. Up to 31.03.2014 the company incurred ₹ 120 crores and the construction. The engineers involved in the project estimated that a further ₹ 45 crores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Project & Loss A/c in the books of M/s. Highway Constructions.

(May 2014, 5 Marks)

Question 17

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

	(Amount ₹ in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	—	200	200
Contracts costs incurred up to the reporting date	2093	6168*	8100**
Estimated profit for whole contract	950	1,000	1,000

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

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

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

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

(May 2015, 5 Marks)

Question 18

Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS-7. *(Group-I, May 2016, 5 Marks)*

Question 19

GTI Ltd. Negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹ 102 lacs, ₹ 150 lacs, ₹ 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

(Group I, November 2016, 5 Marks)

AS 9: Revenue Recognition

Question 1

Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2015, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide, whether the income by way of interest from dealers is eligible for recognition as per AS 9?

(Practice Manual)

Question 2

The Board of Directors of X Ltd. decided on 31.3.2015 to increase sale price of certain items of goods sold retrospectively from 1st January, 2015. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2015 to 31.3.2015. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

(Practice Manual)

Question 3

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.

(Practice Manual)

Question 4

M/s. Moon Ltd. sold goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a trade discount amounting to ₹ 53,000 and same was agreed to by M/s. Moon Ltd. The sale was effected and goods were dispatched. On receipt of goods, Mr. Star has found that goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s. Moon Ltd. and made payment due amounting to ₹ 5,30,000. The accountant of M/s. Moon Ltd. booked the sale for ₹ 5,30,000. Discuss the contention of the accountant with reference to Accounting Standard (AS) 9.

(Practice Manual)

Question 5

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue. Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

(Practice Manual)

Question 6

Y Co. Ltd., used certain resources of X Co. Ltd. In return X Co. Ltd. received ₹ 10 lakhs and ₹ 15 lakhs as interest and royalties respective from Y Co. Ltd. during the year 2014-15.

You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

(Study Material)

Question 7

SCL Ltd., sells agriculture products to dealers. One of the condition of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2013-2014 the company wants to recognise the entire interest receivable. Do you agree?

(Study Material)

Past Examination Questions

Question 8

Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is, payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2006, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at ₹ 9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.

(May 2006, 4 Marks)

Question 9

Y Ltd. used certain resources of X Ltd. In return X Ltd. receives ₹10 lakhs and ₹15 lakhs as interest and royalties respectively, from Y Ltd. during the year 2007-2008. State on what basis X Ltd. should recognize their revenue, as per AS 9.

(November 2008, 2 Marks)

Question 10

According to Accounting Standard 9, when revenue from sales should be recognised?

(May 2010, 2 Marks)

Question 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.

(November 2011, 4 Marks)

Question 12

M/s. Moon Ltd. sold goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a trade discount amounting to ₹ 53,000 and same was agreed to by M/s. Moon Ltd. The sales was effected and goods were dispatched. On receipt of goods, Mr. Star has found that goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s. Moon Ltd. and made payment due amounting to ₹ 5,30,000. The accountant of M/s. Moon Ltd. booked the sale for ₹ 5,30,000. Discuss the contention of the accountant with reference to Accounting Standard (AS) 9.

(May 2013, 4 Marks)

Question 13

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.

(November 2013, 5 Marks)

Question 14

Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

(November 2014, 5 Marks)

Question 15

Given the following information of M/s. Paper Products Ltd.

- (i) Goods of ₹ 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.
- (ii) On 15-1-2015 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.
- (iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval for the remaining goods till 31-3-2015.
- (iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(May 2015, 4 Marks)

Question 16

M/s Umang Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 12% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2015 interest due from agent (because of delay in payment) amounts to ₹ 1,72,000. The accountant of M/s Umang Ltd. booked ₹ 1,72,000 as interest income in the year ended 31st March, 2015. Discuss the contention of the accountant with reference to Accounting Standard-9.

(November 2015, 5 Marks)

Question 17

The stages of production and sale of a producer are as follow:

Date	Activity	Costs to date ₹	Net Realisable Value ₹
20.1.12	Raw Materials	10,000	8,000
25.1.12	WIP 1	12,000	13,000
27.1.12	WIP 2	15,000	19,000
25.2.12	Finished Product	17,000	30,000
12.3.12	Ready for Sale	17,000	30,000
27.3.12	Sale Agreed and invoice raised	19,000	30,000
02.4.12	Delivered and paid for	19,000	30,000

Explain the stage on which you think revenue will be recognized and state how much would be net profit on a unit of this product according to AS 9?

(Study Material)

Question 18

A manufacturing company has the following stages of production and sale in manufacturing Fine paper rolls:

Date	Activity	Costs to Date (₹)	Net Realizable Value (₹)
15.1.16	Raw material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31-3-16 on this product according to AS-9.

(Group I, November 2016, 5 Marks)

AS 14: Accounting for Amalgamations

Question 1

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14.

Or

What disclosures should be made in the first financial statements following the amalgamation?

(Practice Manual)

Question 2

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(Practice Manual)

Question 3

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

(Practice Manual)

Question 4

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?

(Group I-Practice Manual)

Question 5

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.

(Group I-Practice Manual)

Question 6

What are the conditions that are to be satisfied for 'Amalgamation in the nature of Merger'?

(Group II-November 2006, 4 Marks)

Question 7

A Ltd. take over B Ltd. on April 01, 2015 and discharges consideration for the business as follows:

- (i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.
- (ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.
- (iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate Considerations

(Study Material)

Past Examination Questions

Question 8

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(May 2004, 4 Marks)

Question 9

Name two methods of accounting for the amalgamations as contemplated by AS 14.

(June 2009, 2 Marks)

Question 10

X Co. Ltd. having share capital of ₹50 lakhs divided into equity shares of ₹10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of ₹10,00,000 and Profit and Loss Account Cr. ₹5,00,000. Y Co. Ltd. issued 11 equity shares of ₹10 each for every 10 shares of X Co. Ltd. How the Journal Entries would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interest method' of amalgamation.

(November, 2009, 2 Marks)

Question 11

As per Accounting Standard-14, what are the conditions which must be satisfied for an amalgamation in the nature of merger?

(November 2009, 2 Marks)

Question 12

The abstract of the Balance Sheet of the AXE Ltd. as at 31st March 2012, are as follows:

Liabilities	₹
Equity share capital (₹100 each)	15,00,000
12% Preference share capital (₹100 each)	8,00,000
13% Debentures	3,00,000

On 31st March 2012, BXE Ltd. agreed to take over AXE Ltd. on the following terms:

- (1) For each preference share in AXE Ltd., ₹10 in cash and one 9% preference share of ₹100 in BXE Ltd.
- (2) For each share AXE Ltd. ₹20 in cash and one equity share in BXE Ltd. of ₹100 each. It was decided that the share in BXE Ltd. will be issued at market price ₹140 per share.
- (3) Liquidation expenses of AXE Ltd. are to be reimbursed by BXE Ltd. to the extent of ₹10000. Actual expenses amounted to ₹12500.

You are required to compute the amount of purchase consideration.

(May 2011, 5 Marks)

Question 13

What disclosures should be made in the first financial statements following the amalgamation?

(November 2011, 4 Marks)

Question 14

Briefly explain the types of Amalgamations?

(May 2012, 5 Marks)

Question 15

A Ltd. is amalgamating with B Ltd. They are undecided on the method of accounting to be followed. You are required to advise the management of B Ltd. on the method of accounting that can be adopted under AS-14

(November 2013, 5 Marks)

Question 16

Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS-14.

(November 2015, 4 Marks)

AS 18: Related Party Disclosures

Theory

Question 1

Who are related parties under AS 18? What are the related party disclosure requirements?

(Practice Manual)

Related Party Relations

Question 2

P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the viewpoint of AS 18 on Related Party Disclosures?

(Practice Manual)

Question 3

Identify the related parties in the following cases as per AS 18

A Ltd. holds 51% of B Ltd.

B Ltd holds 51% of O Ltd.

Z Ltd holds 49% of O Ltd.

(Study Material)

Answer: A Ltd., B Ltd. & O Ltd. are related to each other. Z Ltd. & O Ltd. are related to each other by virtue of Associate relationship. However, neither A Ltd. nor B Ltd. is related to Z Ltd. and vice versa.

Question 4

Narmada Ltd. sold goods for ₹ 90 lakhs to Ganga Ltd. during financial year ended 31-3-2014. The Managing Director of Narmada Ltd. own 100% of Ganga Ltd. The sales were made to Ganga Ltd. at normal selling prices followed by Narmada Ltd. The Chief accountant of Narmada Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct?

(Study Material)

Answer: As per paragraph 13 of AS 18 'Related Party Disclosures', Enterprises over which a key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise.

In the given case, Narmada Ltd. and Ganga Ltd are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

Hence the contention of Chief Accountant of Narmada Ltd is wrong.

Question 5

Mr. Raj a relative of key management personnel received remuneration of ₹2,50,000 for his services in the company for the period from 1.4.2013 to 30.6.2013. On 1.7.2013 he left the service.

Should the relative be identified as at the closing date i.e. on 31.3.2014 for the purposes of AS 18?

(Study Material)

Answer: According to para 10 of AS 18 on Related Party Disclosures, parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Raj, a relative of key management personnel should be identified as relative as at the closing date i.e. on 31.3.2014.

Question 6

X Ltd. sold goods to its associate Company for the 1st quarter ending 30.6.2014. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year have to be disclosed as related party transaction.

(Study Material)

Answer: As per para 23 of AS 18, transactions of X Ltd. with its associate company for the first quarter ending 30.06.2014 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported.

Scanner

Question 7

P Ltd has 60% voting right in Q Ltd. Q Ltd has 20% voting right in R Ltd. Also, P Ltd directly enjoys voting right of 14% in R Ltd. R Ltd is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS-18 on related party disclosures?

(November 2012, 4 Marks)

AS 17: Segment Reporting

Question 1

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments:

₹ in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments "M" and "N" alone should be reported. Is he justified in his view? Discuss.

(Study Material)

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

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

Its segment result whether profit or loss is 10% or more of:

The combined result of all segments in profit; or

The combined result of all segments in loss, whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments. If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments M and N are reportable segments.

On the basis of the result criteria, segments M, N and R are reportable segments

(since their results in absolute amount is 10% or more of ₹200 lakhs).

On the basis of asset criteria, all segments except R are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of chief accountant is wrong.

Question 2

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company correct?

(Study Material)

Answer: AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing intersegment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

Question 3

M/s XYZ Ltd. has three segments namely X, Y, Z. The total Assets of the Company are ₹10.00 crores. Segment X has ₹2.00 crores, segment Y has ₹3.00 crores and segment Z has ₹5.00 crores. Deferred tax assets included in the assets of each segments are X- ₹0.50 crores, Y— ₹0.40 crores and Z— ₹0.30 crores. The accountant contends that all the three segments are reportable segments. Comment.

(Study Material)

Answer: According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are ₹8.8 crores [₹10 crores - (₹0.5 + ₹0.4 + ₹0.3)]. Segment X holds total assets of ₹1.5 crores (₹2 crores - ₹0.5 crores); Segment Y holds ₹2.6 crores (₹3 crores - ₹0.4 crores); and Segment Z holds ₹4.7 crores (₹5 crores - ₹0.3 crores). Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Question 4

Prepare a segmental report for publication in Diversifiers Ltd. from the following details of the company's three divisions and the head office:

	₹('000)
Forging Shop Division	
Sales to Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
Bright Bar Division	
Sales to Fitting Division	45
Export Sales to Rwanda	300
	345
Fitting Division	
Export Sales to Maldives	270

Particulars	Head Office ₹('000)	Forging Shop Division ₹(000)	Bright Bar Division ₹(000)	Fitting Division ₹(000)
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

(Study Material)

Answer:

**Diversifiers Ltd.
Segmental Report**

(₹'000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging Shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-	-	90
Export	<u>6,135</u>	<u>300</u>	<u>270</u>	-	<u>6,705</u>
External Sales	6,225	300	270	-	6,795
Inter-Segment Sales	<u>4,575</u>	<u>45</u>	<u>—</u>	<u>4,620</u>	<u>—</u>
Total Revenue	<u>10,800</u>	<u>345</u>	<u>270</u>	<u>4,620</u>	<u>6,795</u>
Segment Result (Given)	240	30	(12)		258
Head Office Expenses					<u>(144)</u>
Operating Profit					<u>114</u>
Interest Expense					<u>(16)</u>
Profit Before Tax					<u>98</u>
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	—	540
Net Current Assets	<u>180</u>	<u>60</u>	<u>135</u>	<u>—</u>	<u>375</u>
Segment Assets	<u>480</u>	<u>120</u>	<u>315</u>	—	915
Unallocated Corporate Assets (75 + 72)					<u>147</u>
Total Assets					<u>1,062</u>
Segment Liabilities	<u>30</u>	<u>15</u>	<u>180</u>	<u>—</u>	<u>225</u>
Unallocated Corporate Liabilities					<u>57</u>
Total Liabilities					282

Sales Revenue by Geographical Market

	Home Sales	Export Sales (By Forging Shop Division)	Export to Rwanda	Export to Maldives	(₹'000) Consolidated Total
External Sales	90	6,135	300	270	6,795

Question 5

Microtech Ltd. produces batteries for scooters, cars, trucks, and specialised batteries for invertors and UPS. How many segments should it have and why?

(Study Material)

Answer: In case of Microtech Ltd., the basic product is the batteries, but the risks and returns of the batteries for automobiles (scooters, cars and trucks) and batteries for invertors and UPS are affected by different set of factors. In case of automobile batteries, the risks and returns are affected by the Government policy, road conditions, quality of automobiles, etc. whereas in case of batteries for invertors and UPS, the risks and returns are affected by power condition, standard of living, etc. Therefore, it can be said that Microtech Ltd. has two business segments viz 'Automobile batteries' and 'batteries for Invertors and UPS'.

AS 19: Leases

Question 1

Write short note on Sale and Lease Back Transactions as per Accounting Standard 19.

(Practice Manual)

Question 2

Explain the types of lease as per AS 19.

(Practice Manual)

Question 3

Define the term Finance Lease. State any three situations when a lease would be classified as finance lease.

(Practice Manual)

Question 4

Annual lease rent = ₹ 40,000 at the end of each year

Lease period = 5 years

Guaranteed residual value = ₹ 14,000

Fair value at the inception (beginning) of lease = ₹ 1,50,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

(Practice Manual)

Question 5

B&P Ltd. availed a lease from N&L Ltd. The conditions of the lease terms are as under:

- (i) Lease period is 3 years, in the beginning of the year 2010, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
- (ii) The Fair market value is also ₹ 10,00,000.
- (iii) The property reverts back to the lessor on termination of the lease.
- (iv) The unguaranteed residual value is estimated at ₹ 1,00,000 at the end of the year 2012
- (v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%.

The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513.

The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the lease constitute finance lease and also calculate unearned finance income.

(Practice Manual)

Question 6

An equipment having expected useful life of 5 years, is leased for 3 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 equal installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3rd year is ₹ 60,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513. State with reason whether the lease constitutes finance lease and also compute the unearned finance income.

(Practice Manual)

Question 7

Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000. The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000. The implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively. Calculate the value of machinery to be considered by Lessee Ltd. and the finance charges in each year.

*(Practice Manual)***Question 8**

X Ltd. sold JCB Machine having WDV of ₹ 50 Lakhs to Y Ltd for ₹ 60 Lakhs and the same JCB was leased back by Y Ltd to X Ltd. The lease is operating lease

Comment according to relevant Accounting Standard if

- (i) Sale price of ₹ 60 Lakhs is equal to fair value
- (ii) Fair Value is ₹ 50 Lakhs and sale price is ₹45 Lakhs.
- (iii) Fair value is ₹ 55 Lakhs and sale price is ₹ 62 lakhs
- (iv) Fair value is ₹ 45 Lakhs and sale price is ₹ 48 Lakhs.

*(Practice Manual)***Question 9**

Classify the following into either operating or finance lease:

- (i) Lessee has option to purchase the asset at lower than fair value, at the end of lease term;
- (ii) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;
- (iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;
- (iv) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

*(Practice Manual)***Question 10**

What do you understand by the term "Interest rate implicit on lease"?

Calculate the interest rate implicit on lease from the following details:

Annual Lease Rent	₹ 80,000 at the end of each year
Lease Period	5 Years
Guaranteed Residual Value	₹ 40,000
Unguaranteed Residual Value	₹ 24,000
Fair Value at the inception of the lease	₹ 3,20,000

Discounted rates for the first 5 years are as below:

At 10% 0.909, 0.826, 0.751, 0.683, 0.621
 At 14% 0.877, 0.769, 0.675, 0.592, 0.519

(Practice Manual)

Question 11

A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are ₹ 7,00,000. The amount will be paid in 4 equal installments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is ₹ 70,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 4th year at 10% IRR is 3.169. The present value of ₹ 1 due at the end of 4th year at 10% rate of interest is 0.683.

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(Practice Manual)

Question 12

Annual lease rents	=	₹ 50,000 at the end of each year.
Lease period	=	5 years;
Guaranteed residual value	=	₹ 25,000
Unguaranteed residual value	=	₹ 15,000
Fair Value at the inception (beginning) of lease	=	₹ 2,00,000

(Study Material)

Answer: Interest rate implicit on lease is computed below:

Interest rate implicit on lease is a discounting rate at which present value of minimum lease payments and unguaranteed residual value is ₹ 2 lakhs.

PV of minimum lease payments and unguaranteed residual value at guessed rate 10%

Year	Lease Payments ₹	DF (10%)	PV ₹
1	50,000	0.909	45,450
2	50,000	0.826	41,300
3	50,000	0.751	37,550
4	50,000	0.683	34,150
5	50,000	0.621	31,050
5	25,000	0.621	15,525
5	15,000	0.621	9,315
			2,14,340

PV of minimum lease payments and unguaranteed residual value at guessed rate 14%

Year	Lease Payments ₹	DF (14%)	PV ₹
1	50,000	0.877	43,850
2	50,000	0.769	38,450
3	50,000	0.675	33,750
4	50,000	0.592	29,600
5	50,000	0.519	25,950
5	25,000	0.519	12,975
5	15,000	0.519	7,785
			1,92,360

Interest rate implicit on lease is computed below by interpolation:

$$\text{Interest rate implicit on lease} = 10\% + \frac{14\% - 10\%}{2,14,340 - 1,92,360} \times (2,14,340 - 2,00,000) = 12.6\%$$

Question 13

Present value of minimum lease payment using data in Question 12 is computed below:

Year	MLP ₹	DF (12.6%)	PV ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500
3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,99,780

Present value of minimum lease payment = ₹ 1,99,780

Fair value of leased asset = ₹ 2,00,000

The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

	₹	₹
Asset A/c Dr. To Lessor (Being recognition of finance lease as asset and liability)	1,99,780	1,99,780

(Study Material)

Question 14

Using data for Question 12 and assuming zero residual value, allocation of finance charge over lease period is shown below:

Year	Minimum Lease Payments ₹	Finance Charge (12.6%) ₹	Principal ₹	Principal due ₹
0	--	--	--	1,91,500
1	50,000	24,129	25,871	1,65,629
2	50,000	20,869	29,131	1,36,498
3	50,000	17,199	32,801	1,03,697
4	50,000	13,066	36,934	66,763
5	75,000	8,237*	66,763	
	2,75,000	83,500	1,91,500	

* The difference between this figure and finance charge [66,763 × 12.6% = 8412] is due to approximation in computation.

Accounting entries in year 1 to recognise the finance charge in books of lessee are suggested below:

	₹	₹
Finance Charge A/c Dr. To Lessor (Being finance charge due for the year)	24,129	24,129
Lessor Dr. To Bank A/c (Being payment of lease rent for the year)	50,000	50,000
P & L A/c Dr. To Finance Charge A/c (Being recognition of finance charge as expense for the year)	24,129	24,129

(Study Material)

Question 15

Lease rentals are 50,000 p.a. for 5 years GRV is ₹25,000, IRR is 10% and fair value 2,00,000 unguaranteed residual value is not determinable and lessee's incremental borrowing rate is 10%.

Journalise in Books of lessee

(Study Material)

Answer: Present value of minimum lease payment using lessee's incremental borrowing rate 10% is computed below:

Year	MLP ₹	DF (10%)	PV ₹
1	50,000	0.909	45,450
2	50,000	0.826	41,300
3	50,000	0.751	37,550
4	50,000	0.683	34,150
5	50,000	0.621	31,050
5	25,000	0.621	15,525
			2,05,025

Present value of minimum lease payment = ₹ 2,05,025

Fair value of leased asset = ₹ 2,00,000

The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

	₹	₹
Asset A/c Dr. To Lessor (Being recognition of finance lease as asset and liability)	2,00,000	2,00,000

Since the liability is recognised at fair value ₹ 2 lakh (total principal), we need to ascertain a discounting rate at which present value minimum lease payments equals ₹ 2 lakh. The discounting rate can then be used for allocation of finance charge over lease period.

PV of minimum lease payments at guessed rate 12%

Year	Minimum Lease Payments ₹	DF (12%)	PV ₹
1	50,000	0.893	44,650
2	50,000	0.797	39,850
3	50,000	0.712	35,600
4	50,000	0.636	31,800
5	50,000	0.567	28,350
5	25,000	0.567	14,175
			1,94,425

$$\text{Required discounting rate} = 10\% + \frac{12\% - 10\%}{2,05,025 - 1,94,425} \times (2,05,025 - 2,00,000) = 10.95\%$$

Allocation of finance charge over lease period is shown below:

Year	Minimum Lease Payments ₹	Finance Charge (10.95%) ₹	Principal ₹	Principal due ₹
0	—	—	—	2,00,000
1	50,000	21,900	28,100	1,71,900
2	50,000	18,823	31,177	1,40,723
3	50,000	15,409	34,591	1,06,132
4	50,000	11,621	38,379	67,753
5	75,000	7,247*	67,753	
	2,75,000	75,000	2,00,000	

Accounting entries in year 1 to recognise the finance charge in books of lessee are suggested below:

	₹	₹
Finance Charge A/c Dr. To Lessor (Being finance charge due for the year)	21,900	21,900
Lessor Dr. To Bank A/c (Being payment of lease rent for the year)	50,000	50,000
P & L A/c Dr. To Finance Charge (Being recognition of finance charge as expense for the year)	21,900	21,900

* The difference between this figure & finance charge [67,753 × 10.95% = 7418] is due to approximation in computation.

Question 16

S. Square Private Limited has taken machinery on lease from S.K. Ltd. The information is as under:

Lease term = 4 years

Fair value at inception of lease = ₹ 20,00,000

Lease rent = ₹ 6,25,000 p.a. at the end of year

Guaranteed residual value = ₹ 1,25,000

Expected residual value = ₹ 3,75,000

Implicit interest rate = 15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the lease liability as per AS-19.

(Study Material)

Question 17

Prakash Limited leased a machine to Badal Limited on the following terms:

		(₹ In lakhs)
(i)	Fair value of the machine	48.00
(ii)	Lease term	5 years
(iii)	Lease rental per annum	8.00
(iv)	Guaranteed residual value	1.60
(v)	Expected residual value	3.00
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718, and 0.4972 respectively.

Ascertain Unearned Finance Income.

(Study Material)

Question 18

A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –

- Sale price of ₹50 lakhs is equal to fair value.
- Fair value is ₹ 60 lakhs.
- Fair value is ₹ 45 lakhs and sale price is ₹ 38 lakhs.
- Fair value is ₹ 40 lakhs and sale price is ₹50 lakhs.
- Fair value is ₹46 lakhs and sale price is ₹ 50 lakhs
- Fair value is ₹35 lakhs and sale price is ₹39 lakhs.

(Study Material)

Past Examination Questions

Question 19

B & P Ltd. availed a lease from N & L Ltd. The conditions of the lease terms are as under:

- (i) Lease period is 3 years, in the beginning of the year 2009, for equipment costing ₹ 10,00,000 and has an expected useful life of 5 years.
- (ii) The Fair market value is also ₹ 10,00,000.
- (iii) The property reverts back to the lessor on termination of the lease.
- (iv) The unguaranteed value is estimated at ₹ 1,00,000 at the end of the year 2011.
- (v) 3 equal annual payments are made at the end of each year.

Consider IRR = 10%

The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is ₹ 0.7513.

The present value of annuity of ₹ 1 due at the end of 3rd year at 10% IRR is ₹ 2.4868.

State whether the lease constitute finance lease and also calculate unearned Finance income.

(May, 2010, 4 Marks)

Question 20

Lessee Ltd. Took a machine on lease from Lessor Ltd., the fair value being ₹7,00,000. The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. Pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000, the implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively. Calculate the value of machinery to be considered by Lessee Ltd. And the finance charges in each year.

(May 2011, 8 Marks)

Question 21

An equipment having expected useful life of 5 years, is leased for 3 years. Both the cost and the fair value of the equipment are ₹ 6,00,000. The amount will be paid in 3 equal instalments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 60,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513. State with reason whether the lease constitutes finance lease and also compute the unearned finance income.

(November 2011, 5 Marks)

Question 22

X Ltd. sold JCB Machine having WDV of ₹50 Lakhs to Y Ltd. for ₹60 Lakhs and the same JCB was leased back by Y Ltd. to X Ltd. The lease is operating lease.

Comment according to relevant Accounting Standard if—

- (i) Sale price of ₹60 Lakhs is equal to fair value.
- (ii) Fair value is ₹50 Lakhs and sale price is ₹45 Lakhs.
- (iii) Fair value is ₹55 Lakhs and sale price is ₹62 Lakhs.
- (iv) Fair value is ₹45 Lakhs and sale price is ₹48 Lakhs.

(May 2012, 4 Marks)

Question 23

Define the term Finance Lease. State any three situations when a lease would be classified as finance lease.

(November 2012, 4 Marks)

Question 24

Annual lease rent = ₹40,000 at the end of the year

Lease period = 5 years

Guaranteed residual value = ₹14,000

Fair value at the inception (beginning) of lease = ₹1,50,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

(November 2012, 4 Marks)

Question 25

Classify the following into either operating or finance lease:

- (i) Lessee has option to purchase the asset at lower than fair value, at the end of lease term;
- (ii) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;
- (iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;
- (iv) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

(November 2013, 4 Marks)

Question 26

What do you understand by the term "Interest rate implicit on lease"?

Calculate the interest rate implicit on lease from the following details:

Annual Lease Rent	:	₹ 80,000 at the end of each year
Lease Period	:	5 Years
Guaranteed Residual Value	:	₹ 40,000
Unguaranteed Residual Value	:	₹ 24,000
Fair Value at the inception of the lease	:	₹ 3,20,000

Discounted rates for the first 5 years are as below:

At 10% 0.909, 0.826, 0.751, 0.683, 0.621

At 14% 0.877, 0.769, 0.675, 0.592, 0.519

(May 2014, 5 Marks)

Question 27

A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are ₹ 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is ₹ 70,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 4th year at 10% IRR is 3.169. The present value of ₹ 1 due at the end of 4th year at 10% rate of interest is 0.683.

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(November 2014, 5 Marks)

Question 28

State any four situations when a lease would be classified as Finance Lease.

(May, 2015, 4 Marks)

Question 29

Akshat International Limited has given a machinery on lease for 36 months and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and present value of annuity factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income. *(November 2015, 5 Marks)*

AS 20: Earnings Per Share

Question 1

In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered:

- (i) Equity Shares issued in exchange of cash,
- (ii) Equity Shares issued as a result of conversion of a debt instrument,
- (iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,
- (iv) Equity Shares issued for rendering of services to the enterprise,
- (v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument,
- (vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

(Practice Manual)

Question 2

Net profit for the year 2012 : ₹ 24,00,000

Weighted average number of equity shares outstanding during the year 2012: 10,00,000

Average Fair value of one equity share during the year 2012 : ₹ 25.00

Weighted average number of shares under option during the year 2012: 2,00,000

Exercise price for shares under option during the year 2012 : ₹ 20.00

Compute Basic and diluted earnings per share.

(Practice Manual)

Question 3

In April, 2010, A Limited issued 18,00,000 Equity shares of ₹ 10 each, ₹ 5 per share was called up on that date which was paid by all the shareholders. The remaining ₹ 5 was called up on 1-9-2010. All the Shareholders (except one having 3,60,000 shares) paid the sum in September 2010. The net profit for the year ended 31-3-2011 is ₹ 33 lakhs after dividend on preference shares and dividend distribution tax of ₹ 6.60 lakhs.

Compute the basic EPS for the year ended 31st March, 2011 as per AS 20.

(Practice Manual)

Question 4

"While calculating diluted earning per share, effect is given to all dilutive potential equity shares that were outstanding during that period." Explain. Also calculate the diluted earnings per share from the following information:

Net profit for the current year	₹ 85,50,000
No. of equity shares outstanding	20,00,000
No. of 8% convertible debentures of ₹ 100 each	1,00,000
Each debenture is convertible into 10 equity shares	
Interest expenses for the current year	₹ 6,00,000
Tax relating to interest expenses	30%

(Practice Manual)

Question 5

Compute Basic Earnings per share from the following information:

Date	Particulars	No. of shares
1st April, 2008	Balance at the beginning of the year	1,500
1st August, 2008	Issue of shares for cash	600
31st March, 2009	Buy back of shares	500

Net profit for the year ended 31st March, 2009 was ₹ 2,75,000.

(Practice Manual)

Question 6

Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of ₹ 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was ₹ 25. The company has given share option to its employees of 2,00,000 equity shares at option price of ₹ 15. Calculate basic E.P.S. and diluted E.P.S.

(Practice Manual)

Question 7

From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of ₹ 10 each fully paid)	93.00

(Practice Manual)

Question 8

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

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

(Practice Manual)

Question 9

- (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:

		No. of shares
1st April, 2010	Balance of equity shares	7,20,000
31st August, 2010	Equity shares issued for cash	2,40,000
1st February, 2011	Equity shares bought back	1,20,000
31st March, 2011	Balance of equity shares	8,40,000

- (ii) Compute adjusted earnings per share and basic EPS based on the following information:

Net profit 2009-10	₹ 7,20,000
Net profit 2010-11	₹ 24,00,000
No. of equity shares outstanding until 31st December, 2010	8,00,000

Bonus issue on 1st January, 2011, 2 equity shares for each equity share outstanding at 31st December, 2010.

(Practice Manual)

Question 10

The following information is available for AB Ltd. for the accounting year 2012-13 and 2013- 14:

Net profit for		₹
Year	2012-13	22,00,000
Year	2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares outstanding i.e. 2,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute:

- Basic earnings per share for the year 2012-13.
- Restated basic earnings per share for the year 2012-13 for right issue.
- Basic earnings per share for the year 2013-14.

(Practice Manual)

Question 11

Date	Particulars	No. of Shares	Face Value	Paid up Value
1st January	Balance at beginning of year	1,800	₹ 10	₹ 10
31st October	Issue of Shares	600	₹ 10	₹ 5

Calculate Weighted Number of Shares.

(Study Material)

Question 12

Date	Particulars	No. of Shares	Face Value	Paid up Value
1st January	Balance at beginning of year	1,800	₹ 10	₹ 10
31st October	Issue of Shares	600	₹ 10	₹ 5

Calculate Weighted Number of Shares.

(Study Material)

Question 13

Net profit for the year 2011 ₹ 18,00,000
 Net profit for the year 2012 ₹ 60,00,000
 No. of equity shares outstanding until 30th September 2012 20,00,000
 Bonus issue 1st October 2012 was 2 equity shares for each equity share outstanding at 30th September, 2012

Calculate Basic Earnings Per Share.

(Study Material)

Question 14

Net profit for the year 2011 ₹ 11,00,000
 Net profit for the year 2012 ₹ 15,00,000
 No. of shares outstanding prior to rights issue 5,00,000 shares
 Rights issue price ₹ 15.00
 Last date to exercise rights 1st March 2012
 Rights issue is one new share for each five outstanding (i.e. 1,00,000 new shares)
 Fair value of one equity share immediately prior to exercise of rights on 1st March 2012 was ₹21.00. Compute Basic Earnings Per Share.

(Study Material)

Question 15

Net profit for the current year ₹ 1,00,00,000
 No. of equity shares outstanding 50,00,000
 Basic earnings per share ₹ 2.00
 No. of 12% convertible debentures of ₹ 100 each 1,00,000
 Each debenture is convertible into 10 equity shares
 Interest expense for the current year ₹ 12,00,000
 Tax relating to interest expense (30%) ₹ 3,60,000
 Compute Diluted Earnings Per Share.

(Study Material)

Question 16

Net profit for the year 2012	₹ 12,00,000
Weighted average number of equity shares outstanding during the year 2012	5,00,000 shares
Average fair value of one equity share during the year 2012	₹ 20.00
Weighted average number of shares under option during the year 2012	1,00,000 shares
Exercise price for shares under option during the year 2012	₹ 15.00
Compute Basic and Diluted Earnings Per Share.	

(Study Material)

Question 17

X Co. Ltd. supplied the following information. You are required to compute the basic earning per share:

(Accounting year 1.1.2012 – 31.12.2012)

Net Profit	: Year 2012 : ₹ 20,00,000
	: Year 2013 : ₹ 30,00,000
No. of shares outstanding prior to Right Issue	: 10,00,000 shares
Right Issue	: One new share for each four Out standing i.e., 2,50,000 shares. Right Issue price – ₹ 20 Last date of exercise rights – 31.3.2013.
Fair rate of one Equity share immediately prior to exercise of rights on 31.3.2013	: ₹ 25

(Study Material)

Past Examination Questions**Question 18**

In April, 2004 a Limited Company issued 1,20,000 equity shares of ₹ 100 each. ₹ 50 per share was called up on that date which was paid by all shareholders. The remaining ₹ 50 was called up on 1.9.2004. All shareholders paid the sum in September, 2004, except one shareholder having 24,000 shares. The net profit for the year ended 31.3.2005 is ₹2,64,000 after dividend on preference shares and dividend distribution tax of ₹ 64,000.

Compute basic EPS for the year ended 31.3.2005 as per Accounting Standard 20.

(May, 2005, 4 Marks)

Question 19

From the following information relating to Y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capital (shares of ₹10 each fully paid)	93.00

(November 2007, 4 Marks)

Question 20

From the following information relating to X Ltd., calculate Diluted Earnings Per Share as per AS 20:

Net Profit for the current year	₹ 2,00,00,000
Number of equity shares outstanding	40,00,000
Basic earnings per share	₹ 5.00
Number of 11% convertible debentures of ₹100 each	50,000
Each debenture is convertible into 8 equity shares.	
Interest expense for the current year	₹ 5,50,000
Tax saving relating to interest expense (30%)	₹ 1,65,000

(June 2009, 4 Marks)

Question 21

Compute Basic Earnings per share from the following information:

Date	Particulars	No. of shares
1st April, 2008	Balance at the beginning of the year	1,500
1st August, 2008	Issue of shares for cash	600
31st March, 2009	Buy back of shares	500

Net profit for the year ended 31st March, 2009 was ₹2,75,000.

(November, 2009, 5 Marks)

Question 22

Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of ₹ 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was ₹ 25. The company has given share option to its employees of 2,00,000 equity shares at option price of ₹ 15. Calculate basic E.P.S. and diluted E.P.S.

(November, 2010, 4 Marks)

Question 23

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

Net Profit	₹
Year 2009-10	25,00,000
Year 2010-11	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 of exercise rights 30-6-2010

Fair rate 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.

(May, 2011, 5 Marks)

Question 24

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:

		No. of Shares
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

(May 2012, 5 Marks)

Question 25

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 Until 31st December 2011.	₹ 5,00,000

Until 31st December 2011.

Bonus issue on 1st January, 2012 1 equity share for each equity share Outstanding as on 31st December, 2011.

(May 2012, 5 Marks)

Question 26

Net profit for the year 2012: ₹ 24,00,000

Weighted average number of equity shares outstanding during the year 2012: ₹ 10,00,000

Average Fair value of one equity share during the year 2012: ₹ 25.00

Weighted average number of shares under option during the year 2012: 2,00,000

Exercise price for shares under option during the year 2012: ₹ 20.00

Compute Basic and Diluted earning per share.

(May 2013, 5 Marks)

Question 27

The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for	₹
Year 2012-13	22,00,000
Year 2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares Outstanding i.e. 2,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute

- (i) Basic earnings per share for the year 2012-13.
- (ii) Restated basic earnings per share for the year 2012-13 for right issue.
- (iii) Basic earnings per share for the year 2013-14.

(May 2014, 5 Marks)

Question 28

In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered:

- (i) Equity Shares issued in exchange of cash,
- (ii) Equity Shares issued as a result of conversion of a debt instrument,
- (iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,
- (iv) Equity Shares issued for rendering of services to the enterprise,
- (v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument,
- (vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

Also define Potential Equity Share.

(November 2014, 4 Marks)

Question 29

M/s. A Ltd. had 8,00,000 Equity Shares outstanding on 1st April, 2013. The Company earned a profit of ₹ 20,00,000 during the year 2013-14. The average fair value per share during 2013-14 was ₹ 40. The Company has given Share Option to its employees of 1,00,000 Equity Shares at option price of ₹ 20.

Calculate Basic EPS and Diluted EPS.

(May, 2015, 5 Marks)

Question 30

What do you mean by "Weighted average number of equity shares outstanding during the period" and why is it required to be calculated? Compute weighted average number of equity shares in the following case:

		No. of shares
1st April, 2014	Balance of Equity Shares	5,00,000
30th June, 2014	Equity Shares issued for cash	1,00,000
15th January, 2015	Equity Shares bought back	50,000
31st March, 2015	Balance of Equity Shares	5,50,000

(November 2015, 4 Marks)

Question 31

"While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS.

Also calculate the diluted EPS from the following information:

Net Profit for the current year (After Tax)	₹ 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹ 100 each	1,00,000
(Each Debentures is compulsorily & fully convertible into 10 equity shares)	
Debenture interest expense for the current year	₹ 5,00,000
Assume applicable Income Tax rate @ 30%	

(November, 2016, 5 Marks)

AS 22: Accounting for Taxes on Income

Question 1

Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	2,00,000
Depreciation as per income tax records	5,00,000
Unamortised preliminary expenses as per tax record	30,000

There is adequate evidence of future profit sufficiency. How much deferred tax asset/liability should be recognised? Tax rate 50%.

(Study Material)

Answer: Table showing calculation of deferred tax asset/liability

Particulars	Amount	Timing differences	Deferred tax	Amount @ 50%
	₹			₹
Excess depreciation as per tax records 5,00,000 - ₹2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

Question 2

From the following details of A Ltd. for the year ended 31-03-2017, calculate the deferred tax asset/ liability as per AS 22 and amount of tax to be debited to the Profit and Loss Account for the year.

Particulars	₹
Accounting Profit	6,00,000
Book Profit as per MAT	3,50,000
Profit as per Income Tax Act	60,000
Tax rate	20%
MAT rate	7.50%

(Study Material)

Question 3

Ultra Ltd. has provided the following information.

Depreciation as per accounting records = ₹2,00,000

Depreciation as per tax records = ₹5,00,000

Unamortised preliminary expenses as per tax record = ₹30,000

There is adequate evidence of future profit sufficiency How much deferred tax asset/liability should be recognised as transition adjustment when the tax rate is 50%?

(Study Material)

Answer: Calculation of difference between taxable income and accounting income

Particulars	Amount (₹)
Excess depreciation as per tax ₹(5,00,000 - 2,00,000)	3,00,000
Less: Expenses provided in taxable income	(30,000)
Timing difference	2,70,000

Tax expense is more than the current tax due to timing difference.

Therefore deferred tax liability = 50% x 2,70,000 = ₹1,35,000

Question 4

XYZ is an export oriented unit and was enjoying tax holiday upto 31.3.2016. No provision for deferred tax liability was made in accounts for the year ended 31.3.2016. While finalising the accounts for the year ended 31.3.2017, the Accountant says that the entire deferred tax liability upto 31.3.2016 and current year deferred tax liability should be routed through Profit and Loss Account as the relevant Accounting Standard has already become mandatory from 1.4.2001. Do you agree?

(Study Material)

Answer: AS 22 on "Accounting for Taxes on Income" relates to the transitional provisions. It says, "On the first occasion that the taxes on income are accounted for in accordance with this statement, the enterprise should recognise, in the financial statements, the deferred tax balance that has accumulated prior to the adoption of this statement as deferred tax asset/liability with a corresponding credit/charge to the revenue reserves, subject to the consideration of prudence in case of deferred tax assets.

Further AS 22 lays down, "For the purpose of determining accumulated deferred tax in the period in which this statement is applied for the first time, the opening balances of assets and liabilities for accounting purposes and for tax purposes are compared and the differences, if any, are determined. The tax effects of these differences, if any, should be recognised as deferred tax assets or liabilities, if these differences are timing differences."

Therefore, in the case of XYZ, even though AS 22 has come into effect from 1.4.2001, the transitional provisions permit adjustment of deferred tax liability/asset upto the previous year to be adjusted from opening reserve. In other words, the deferred taxes not provided for alone can be adjusted against opening reserves.

Provision for deferred tax asset/liability for the current year should be routed through profit and loss account like normal provision.

Question 5

PQR Ltd.'s accounting year ends on 31st March. The company made a loss of ₹2,00,000 for the year ending 31.3.2015. For the years ending 31.3.2016 and 31.3.2017, it made profits of ₹1,00,000 and ₹1,20,000 respectively. It is assumed that the loss of a year can be carried forward for eight years and tax rate is 40%. By the end of 31.3.2015, the company feels that there will be sufficient taxable income in the future years against which carry forward loss can be set off. There is no difference between taxable income and accounting income except that the carry forward loss is allowed in the years ending 2016 and 2017 for tax purposes. Prepare a statement of Profit and Loss for the years ending 2015, 2016 and 2017.

(Study Material)

Answer:**Statement of Profit and Loss**

	31.3.2015	31.3.2016	31.3.2017
Profit (Loss)	(2,00,000)	1,00,000	1,20,000
Less: Current tax (20,000 x 40%)			(8,000)
Deferred tax:			
Tax effect of timing differences originating during the year (2,00,000 x 40%)	80,000		
Tax effect of timing differences reversed/ adjusted during the year (1,00,000 x 40%)		(40,000)	(40,000)
Profit (Loss) After Tax Effect	(1,20,000)	60,000	72,000

Question 6

Omega Limited is working on different projects which are likely to be completed within 3 years period. It recognises revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognised revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/ liability for the years 2014-2015, 2015-2016 and 2016-2017

*(Study Material)***Answer:****Omega Limited.****Calculation of Deferred Tax Asset/Liability**

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	Nil	Nil
	48,00,000	48,00,000		

Reference: The students are advised to refer the full text of AS 22 "Accounting for Taxes on Income".

Theoretical Question**Question 7**

Write short note on Timing differences and Permanent differences as per AS 22.

(Study Material)

Answer: In current practices, companies, in general, prepare books of accounts as per Companies Act, 2013 generating Accounting Profit/Loss and Income-tax Act, 1961 generating Taxable Profit/Loss. Accounting income and taxable income for a period are seldom the same. Permanent differences are those which arise in one period and do not reverse subsequently. For e.g., an income exempt from tax or an expense that is not allowable as a deduction for tax purposes. Timing differences are those which arise in one period and are capable of reversal in one or more subsequent periods. For e.g., Depreciation, Bonus, etc.

Practical Question

Question 8

Y Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is ₹200 lakhs and ₹400 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by ₹10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

(Study Material)

Answer: As per AS 22, Accounting for Taxes on Income', deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognised to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognised in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of ₹200 lakhs depreciation, timing difference amounting ₹80 lakhs (₹10 lakhs x 8 years) will reverse in the tax holiday period and therefore, should not be recognised. However, for ₹120 lakhs (₹200 lakhs - ₹80 lakhs), deferred tax liability will be recognised for ₹48 lakhs (40% of ₹120 lakhs) in first year. In the second year, the entire amount of timing difference of ₹400 lakhs will reverse only after tax holiday period and hence, will be recognised in full. Deferred tax liability amounting ₹160 lakhs (40% of ₹400 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be ₹208 lakhs (48 lakhs + 160 lakhs).

MCQs

1. As per AS 22 on 'Accounting for Taxes on Income', tax expense is
 - (a) Current tax + deferred tax charged to profit and loss account
 - (b) Current tax-deferred tax credited to profit and loss account
 - (c) Either (a) or (b)

Answer

1. (c)

AS 24: Discontinuing Operations

Theory

Question 1

- (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?
- (ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

(Practice Manual)

Question 2

Differentiate the following items with reference to Accounting Standards (applicable in India) and IFRS:

- (i) Discontinued operations – definition and measurement

(Practice Manual)

Application of AS

Question 3

A Cosmetic articles producing company provides the following information:

	Cold Cream	Vanishing Cream
January, 2014 – September, 2014 per month	2,00,000	2,00,000
October, 2014 – December, 2014 per month	1,00,000	3,00,000
January, 2015- March, 2015 per month	0	4,00,000

The company has enforced a gradual change in product-line on the basis of an overall plan. The Approving Authority of the company has passed a resolution in March, 2015 to this effect. The company follows calendar year as its accounting year. Should this be treated as a discontinuing operation? Give reasons in support of your answer.

(Practice Manual)

Scanner

Question 4

Qu Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner.

- (i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.
- (ii) if the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?
- (iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

(November 2013, 4 Marks)

AS 26: Intangible Assets

Question 1

Decide when research and development cost of a project can be deferred to future periods as per AS 26.

(Practice Manual)

Question 2

How is software acquired for internal use accounted for under AS-26?

(Practice Manual)

Question 3

What are the costs that are to be included in Research and Development costs as per AS 26.

(Practice Manual)

Question 4

A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research and Development cost be charged to Profit and Loss account. If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company?

(Practice Manual)

Question 5

AB Ltd. launched a project for producing product X in October, 2009. The Company incurred ₹ 20 lakhs towards Research and Development expenses upto 31st March, 2011. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(Practice Manual)

Question 6

An enterprise acquired patent right for ₹ 400 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	Estimated Future Cash Flows (₹ in lakhs)
1	200
2	200
3	200
4	100
5	100

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 50 lakhs. Determine the amortization under Accounting Standard 26.

(Practice Manual)

Question 7

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.

The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS 26.

(Practice Manual)

Question 8

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)

(Practice Manual)

Question 9

M Ltd. launched a project for producing product A in Nov. 2008. The company incurred ₹ 30 lakhs towards Research and Development expenses upto 31st March, 2010. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sell the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years.

Advise the company as per the applicable Accounting Standard.

(Practice Manual)

Question 10

A company acquired for its internal use a software on 28.01.2012 from the USA for US \$1,00,000. The exchange rate on that date was ₹ 52 per USD. The seller allowed trade discount @ 5 %. The other expenditure were:

- (i) Import Duty: 20%
- (ii) Purchase Tax: 10%
- (iii) Entry Tax: 5 % (Recoverable later from tax department)
- (iv) Installation expenses : ₹25,000
- (v) Profession fees for Clearance from Customs : ₹ 20,000

Compute the cost of Software to be capitalized.

(Practice Manual)

Question 11

Base Limited is showing an intangible asset at ₹ 85 lakhs as on 1-4-2011. This asset was acquired for ₹ 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(Practice Manual)

Question 12

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.

(Practice Manual)

Question 13

A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

(Practice Manual)

Question 14

ABC Ltd. developed know-how by incurring expenditure of ₹ 20 lakhs. The know-how was used by the company from 1.4.2005. The useful life of the asset is 10 years from the year of commencement of its use. The company has not amortised the asset till 31.3.2012. Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2012.

(Study Material)

Question 15

The company had spent ₹ 45 lakhs for publicity and research expenses on one of its new consumer product, which was marketed in the accounting year 2011-2012, but proved to be a failure. State, how you will deal with the following matters in the accounts of U Ltd. for the year ended 31st March, 2012.

(Study Material)

Question 16

A company with a turnover of ₹ 250 crores and an annual advertising budget of ₹ 2 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 2 crore incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the company correct?

(Study Material)

Question 17

Swift Ltd. acquired a patent at a cost of ₹ 80,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹ 10,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹ 36,00,000, ₹ 46,00,000, ₹ 44,00,000, ₹ 40,00,000 and ₹ 34,00,000. Find out the amortization cost of the patent for each of the years.

(Study Material)

Past Examination Questions

Question 18

A Company had deferred research and development cost of ₹ 150 lakhs. Sales expected in the subsequent years are as under:

Years	Sales (₹ in lakhs)
I	400
II	300
III	200
IV	100

You are asked to suggest how should Research and Development cost be charged to Profit and Loss account.

If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortised expenditure would be dealt with in the accounts of the Company?

(May, 2005, 4 Marks)

Question 19

An intangible asset appears in Balance Sheet of A Co. Ltd. at ₹ 16 lakhs as on 31.3.2004.

The asset was acquired for ₹ 40 lakhs in April, 1991. The Company has been amortising the asset value on straight line basis. The policy is to amortise for 20 years.

Do you advise the Company to amortise the entire asset value in the books of the company as on 31.3.2004?

(November 2005, 4 Marks)

Question 20

AB Ltd. launched a project for producing product X in October, 2004. The Company incurred ₹ 20 lakhs towards Research and Development expenses upto 31st March, 2006. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard.

(May 2006, 4 Marks)

Question 21

ABC Ltd. developed know-how by incurring expenditure of ₹ 20 lakhs, The know-how was used by the company from 1.4.2002. The useful life of the asset is 10 years from the year of commencement of its use. The company has not amortised the asset till 31.3.2009. Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2009.

(November 2009, 2 Marks)

Question 22

M Ltd. launched a project for producing product A in Nov. 2008. The company incurred ₹ 30 lakhs towards Research and Development expenses upto 31st March, 2010. Due to unfavourable market conditions the management feels that it is not possible to manufacture and sold the product in the market for next so many years.

The management hence wants to defer the expenditure write off to future years.

Advise the company as per the applicable Accounting Standard.

(November, 2010, 4 Marks)

Question 23

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 4th year, how the unamortized expenditure would be dealt with in the accounts of the Company?

(May 2012, 5 Marks)

Question 24

A company acquired for its internal use a software on 29.01.2012 from the USA for US @ 1,00,000. The exchange rate on that date was ₹52 per USD. The seller allowed trade discount @ 5%. The other expenditure were:

- (i) Import Duty: 20%
- (ii) Purchase Tax: 10%
- (iii) Entry Tax: 5% (Recoverable later from tax department)
- (iv) Installation expenses: ₹25,000
- (v) Profession fees for Clearance from Customs: ₹20,000

Compute the cost of Software to be capitalized.

(November 2012, 5 Marks)

Question 25

An enterprise acquired patent right for ₹ 400 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under:

Year	Estimated Future Cash Flows (₹ in lakhs)
1	200
2	200
3	200
4	100
5	100

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 50 lakhs each year. Determine the amortization under Accounting Standard 26.

(May 2013, 5 Marks)

Question 26

Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2013. The Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.

The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS-26.

(November 2013, 4 Marks)

Question 27

A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

(November 2014, 5 Marks)

Question 28

M/s. Mahesh Ltd. is developing a new production process. During the Financial Year ended 31st March, 2013, the total expenditure incurred on the process was ₹ 60 lacs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 32 lacs.

Further expenditure incurred on the process for the Financial Year ending 31st March, 2014 was ₹ 90 lacs. As on 31.03.2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 82 lacs. This includes estimates of future cash outflows and inflows.

You are required to work out:

- (i) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2013?
- (ii) What is the carrying amount of the intangible asset as on 31st March, 2013?
- (iii) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2014?
- (iv) What is the carrying amount of the intangible asset as on 31st March, 2014?

(May, 2015, 5 Marks)

Question 29

A Company with a turnover of ₹ 375 crores and an annual advertising budget of ₹ 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 37.5 crores from the new product. The Company had debited to its Profit and Loss account and total expenditure of ₹ 3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct?

(November, 2016, 5 Marks)

AS 29: Provisions, Contingent Liabilities and Contingent Assets

Question 1

X Ltd. has its financial year ended 31.3.2011, fifteen law suits outstanding, none of which has been settled by the time the accounts are approved by the directors. The directors have estimated that the probable outcomes as below:

Result	Probability	Amount of Loss ₹
For first ten cases:		
Win	0.6	----
Loss-low damages	0.3	90,000
Loss-high damages	0.1	2,00,000
For remaining five cases:		
Win	0.5	----
Loss-low damages	0.3	60,000
Loss-high damages	0.2	1,00,000

The directors believe that the outcome of each case is independent of the outcome of all the others.

Estimate the amount of contingent loss and state the accounting treatment of such contingent loss.

(Practice Manual)

Question 2

Shyam Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2010-11, the Government has set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2006 based on the recommendations of the commission. The company makes the provision of ₹ 680 lakhs for pay revision in the financial year 2010-11 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company discloses through notes to accounts:

“Salaries and benefits include the provision of ₹ 680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made”.

The accountant feels that the company should also book/recognise the income by ₹ 680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit.

(Practice Manual)

Question 3

A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the annual accounts of the company?

(Practice Manual)

Question 4

An airline is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

(Practice Manual)

Question 5

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.

(Practice Manual)

Question 6

WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company?

(Practice Manual)

Question 7

At the end of the financial year ending on 31st December, 2013, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	Loss (₹)
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

(Study Material)

Question 8

EXOX Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2014. The company seeks your advice on the following:

- (i) The Company's sales tax assessment for assessment year 2011-12 has been completed on 14th February, 2014 with a demand of ₹ 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.
- (ii) The Company has entered into a wage agreement in May, 2014 whereby the labour union has accepted a revision in wage from June, 2013. The agreement provided that the hike till May, 2014 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2014.

(Study Material)

Past Examination Questions

Question 9

An Airlines is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operate aircrafts does not provide any provisions as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

(May 2012, 4 Marks)

Question 10

A company is in a dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹900 lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the annual accounts of the company?

(November 2012, 4 Marks)

Question 11

An engineering goods company provides after sales warranty for 2 years to its customers. Based on past experience, the company has the 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.

(May 2013, 5 Marks)

Question 12

WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1,000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company?

(November 2014, 5 Marks)

Question 13

With reference to AS29 "Provisions, Contingent Liabilities and Contingent Assets", define:

- (i) A Provision
- (ii) A Liability
- (iii) A Contingent Asset
- (iv) Present Obligation

(May 2016, 4 Marks)

Question 14

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS-29? Explain in brief giving reasons for your answer.

(November, 2016, 4 Marks)

Advanced issues in Partnership Accounts

Question 1

X, Y and Z are partners of the firm XYZ and Co., sharing Profits and Losses in the ratio of 4 : 3 : 2. Following is the Balance Sheet of the firm as at 31st March, 2012:

Balance Sheet as at 31st March, 2012

Liabilities	₹	Assets	₹
Partners' Capitals:		Fixed Assets	5,00,000
X	4,00,000	Stock in trade	3,00,000
Y	3,00,000	Sundry debtors	5,00,000
Z	2,00,000	Cash in hand	10,000
General Reserve	90,000		
Sundry Creditors	<u>3, 20,000</u>		
	<u>13,10, 000</u>		<u>13,10, 000</u>

Partners of the firm decided to dissolve the firm on the above said date. It was found that a credit purchase of ₹ 20,000 in January, 2012 had not been recorded in the books of the firm.

Fixed assets realized ₹ 5,20,000 and book debts ₹ 4,40,000.

Stocks were valued at ₹ 2,50,000 and it was taken over by partner Y.

Creditors allowed discount of 5% and the expenses of realization amounted to ₹ 6,000.

You are required to prepare:

- (i) Realisation account;
- (ii) Partners capital account; and
- (iii) Cash account.

(Practice Manual)

Question 2

P, Q and R are partners sharing profits and losses as to 2:2:1. Their Balance Sheet as on 31st March, 2011 is as follows:

Liabilities		₹	Assets		₹
Capital accounts			Plant and Machinery		1,08,000
P	1,20,000		Fixtures		24,000
Q	48,000		Stock		60,000
R	24,000	1,92,000	Sundry debtors		48,000
Reserve Fund		60,000	Cash		60,000
Creditors		48,000			
		<u>3, 00,000</u>			<u>3, 00,000</u>

They decided to dissolve the business. The following are the amounts realized:

	₹
Plant and Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realization expenses amounted to ₹ 1,500. There was an unrecorded asset of ₹ 6,000 which was taken over by Q at ₹ 4,800. A bill for ₹ 4,200 due for sales tax was received during the course of realization and this was also paid.

You are required to prepare:

- (i) Realisation account.
- (ii) Partners' capital accounts.
- (iii) Cash account.

(Practice Manual)

Question 3

Read, Write and Add give you the following Balance Sheet as on 31st March, 2011.

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

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. Firm was dissolved on 31st March, 2011 and you are given the following information:

- (a) Add had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy.
The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for. Add's loan and ₹ 300 as interest thereon.
- (b) One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.
- (c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- (d) The remaining assets realized the following amount: ₹

Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value	
- (e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
- (f) The expenses of realization amounted to ₹ 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form.

(ICAI Solution is not correct)

(Practice Manual)

Question 4

Explain Garner V/S Murraray rule applicable in the case of partnership firms. State, when is this rule not applicable.

(Practice Manual)

Question 5

W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium.

- (i) List the criteria for the calculation of the amount of refund.
- (ii) Also list any two conditions when no claim in this respect will arise.

(Practice Manual)

Question 6

A, B, C and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March, 2012 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	-	Debtors	42,000
D	35,000	Cash	14,500

Liabilities	Amount (₹)	Assets	Amount (₹)
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	<u>20,000</u>		
	<u>3,06,000</u>		<u>3,06,000</u>

Following information is given to you:

- A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.
- Investments costing ₹ 5,400 were sold by C at ₹ 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.
- The other assets realized as follows:

Building	105% of book value
Stock	₹ 78,000
Investments	The rest of investments were sold at a profit of ₹ 4,800
Debtors	The rest of the debtors were realized at a discount of 12%
- The bills payable were settled at a discount of ₹ 400.
- The expenses of dissolution amounted to ₹ 4,900
- It was found out that realization from C's private assets would only be ₹ 4,000.

Prepare the necessary Ledger Accounts.

(Practice Manual)

(ICAI Solution is not correct)

Question 7

P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts		Land & building	2,46,000
P 1,68,000		Furniture & fixtures	65,000
Q <u>1,08,000</u>	2,76,000	Stock	1,00,000
General reserve	95,000	Debtors	72,500
Capital reserve	25,000	Cash in hand	15,500
Sundry creditors	36,000	Capital overdrawn:	
Mortgage loan	1,10,000	R 25,000	
		S <u>18,000</u>	43,000
	<u>5,42,000</u>		<u>5,42,000</u>

- The assets were realized as under:

Land & building	₹ 2,30,000
Furniture & fixtures	42,000
Stock	72,000
Debtors	65,000

- (ii) Expenses of dissolution amounted to ₹ 7,800.
- (iii) Further creditors of ₹ 18,000 had to be met.
- (iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.

(Practice Manual)

Question 8

Neptune, Jupiter, Venus and Pluto had been carrying on business in partnership sharing profits and losses in the ratio of 3 : 2 : 1 : 1. They decide to dissolve the partnership on the basis of the following Balance Sheet as on 30th April, 2014:

Liabilities	₹	₹	Assets	₹	₹
Capital Account:			Premises		1,20,000
Neptune	1,00,000		Furniture		40,000
Jupiter	<u>60,000</u>	1,60,000	Stock		1,00,000
General Reserve		56,000	Debtors		40,000
Capital Reserve		14,000	Cash		8,000
Sundry Creditors		20,000	Capital Overdrawn:		
Mortgage Loan		80,000	Venus	10,000	
			Pluto	<u>12,000</u>	<u>22,000</u>
		<u>3,30,000</u>			<u>3,30,000</u>

- (i) The assets were realised as under:

	₹
Debtors	24,000
Stock	60,000
Furniture	16,000
Premises	90,000

- (ii) Expenses of dissolution amounted to ₹ 4,000.
- (iii) Further creditors of ₹ 12,000 had to be met.
- (iv) General Reserve unlike Capital Reserve was built up by appropriation of profits.

You are required to draw up the Realisation Account, Partners' Capital Accounts and the Cash Account assuming that Venus became insolvent and nothing was realised from his private estate. Apply the principles laid down in Garner vs Murray. (Practice Manual)

Question 9

A, B and C are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹ 9,600, ₹ 6,000 and ₹ 8,400 respectively.

After paying creditors, the liabilities and assets of the firm were:

	₹		₹
Liability for interest on loans from :		Investments	1,000
Spouses of partners	2,000	Furniture	2,000
Partners	1,000	Machinery	1,200
		Stock	4,000

The assets realised in full in the order in which they are listed above. B is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure. *(Practice Manual)*

Question 10

Amar, Akbar and Antony are in partnership. The following is their Balance Sheet as at March 31, 2010 on which date they dissolved their partnership. They shared profit in the ratio of 5:3:2.

Liabilities		₹	Assets		₹
Creditors		80,000	Plant and machinery		60,000
Loan A/c –	Amar	20,000	Premises		80,000
Capital A/cs -	Amar	1,00,000	Stock		60,000
		30,000	Debtors		1,20,000
	Akbar	90,000			
	Antony	3,20,000			3,20,000

It was agreed to repay the amounts due to the partners as and when the assets were realised, viz.

April 15, 2010	₹ 60,000
May 1, 2010	₹ 1,46,000
May 31, 2010	₹ 94,000

Prepare a statement showing how the distribution should be made under maximum loss method and write up the cash account and partners' capital accounts.

(Practice Manual)

Question 11

Ajay Enterprises, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. the balance sheet of the firm as on 31st December, 2011 is as below:

Liabilities		₹	Assets		₹
A' s Capital		15,000	Factory Building		24,160
B' s Capital		7,500	Plant & Machinery		16,275
C' s Capital		15,000	Debtors		5,400
B' s Loan		4,500	Stock		12,390
Sundry Creditor		16,500	Cash at Bank		275
		58,500			58,500

On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remunerations 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piecemeal as under:

First instalment	₹ 18,650
Second installment	₹ 17,320
Third installment	₹ 10,000
Last instalment	₹ 7,000
Dissolution expenses were provided for estimated amount of	₹ 3,000
The creditors were settled finally for	₹ 15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative Capital Method'.

(Practice Manual)

Question 12

The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	<u>1,63,500</u>	Total	<u>1,63,500</u>

- The partners share profit and losses in the ratio of 4:3:2.
- Cash is distributed to the partners at the end of each month.
- A summary of liquidation transactions are as follows:

January 2014

- ₹ 9,000 - collected from debtors; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 - Liquidation expenses paid.
- ₹ 6,000 - Cash retained in the business at the end of month

February 2014

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 - Cash retained in the business at the end of month

March 2014

- ₹ 38,000 - received on the sale of remaining plant and machinery.
- ₹ 10,000 - received from the sale of entire stock.
- ₹ 1,700 - Liquidation expenses paid.
- ₹ 41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

(Practice Manual)

Question 13

Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances?

(Practice Manual)

Question 14

The firm of Kapil and Dev has four partners and as of 31st March, 2011, its Balance Sheet stood as follows:

Balance Sheet as on 31st March, 2011

Liabilities	₹	Assets	₹
Capital A/cs:		Land	50,000
F. Kapil	2,00,000	Building	2,50,000
S. Kapil	2,00,000	Office equipment	1,25,000
R. Dev	1,00,000	Computers	70,000
Current A/cs		Debtors	4,00,000
F. Kapil	50,000	Stocks	3,00,000
S. Kapil	1,50,000	Cash at Bank	75,000
R. Dev	1,10,000	Other Current Assets	22,600
Loan from NBFC	5,00,000	Current A/c :	
Current Liabilities	70,000	B. Dev	87,400
	13,80,000		13,80,000

The partners have been sharing profits and losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 1.4.2011 on the basis of the following understanding:

- (a) The following assets are to be adjusted to the extent indicated with respect to the book values:

Land	200%
Building	120%
Computers	70%
Debtors	85%
Stocks	90%

- (b) In the case of the loan, the lender's are to be paid at their insistence a prepayment premium of 1%.
- (c) B. Dev is insolvent and no amount is recoverable from him. His father, R. Dev, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

Assuming that the realisation of the assets and discharge of liabilities is carried out immediately, show the Cash A/c, Realisation Account and the Partners' Accounts.

(Practice Manual)

Question 15

The firm of LMS was dissolved on 31.3.2011, at which date its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		47,00,000

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realisations are:

S. No.	Amount in ₹
1	5,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

(Hints: Realization profit credited to partners L ₹ 15,66,667, M ₹ 15,66,667, S ₹ 15,66,666)

(Practice Manual)

Question 16

Ajay, Vijaya, Ram and Shyam are partners in a firm sharing profits and losses in the ratio of 4:1:2:3. The following is their Balance Sheet as at 31st March, 2011:

Liabilities		₹	Assets	₹
Sundry Creditors		3,00,000	Sundry Debtors	3,50,000
Capital A/cs:			Less: Doubtful Debts	(50,000)
Shyam	7,00,000			3,00,000
Ajay	<u>3,00,000</u>	10,00,000	Cash in hand	1,40,000
			Stocks	2,00,000
			Other Assets	3,10,000
			Capital A/cs:	
			Vijay	2,00,000
			Ram	1,50,000
		<u>13,00,000</u>		<u>13,00,000</u>

On 31st March, 2011, the firm is dissolved and the following points are agreed upon:

Ajay is to takeover sundry debtors at 80% of book value Shyam is to takeover the stocks at 95% of the value and Ram is to discharge sundry creditors.

Other assets realise ₹ 3,00,000 and the expenses of realisation come to ₹ 30,000. Vijay is found insolvent and ₹ 21,900 is realised from his estate.

Prepare Realisation Account and Capital Accounts of the partners. Show also the Cash A/c.

The loss arising out of capital deficiency may be distributed following the decision in Garner vs Murray.

(Hints: Vijay's deficiency will be borne by Ajay and Shyam in the ratio of 7 : 3 i.e. on opening capitals of ₹ 7,00,000 and ₹ 3,00,000. Ram will not bear any portion of the loss since at the time of dissolution he had a debit balance in his capital account. Loss on realization- Ajay ₹ 28,000, Vijay ₹ 7,000, Ram ₹ 14,000, Shyam ₹ 21,000)

(Practice Manual)

Question 17

P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	P & Co. ₹	R & Co. ₹	Assets	P & Co. ₹	R & Co. ₹
Capitals:			Fixed assets:		
P	2,40,000	—	Building	50,000	60,000
Q	1,60,000	2,00,000	Plant & machinery	1,50,000	1,60,000
R	—	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	Current assets:		
Sundry creditors	1,20,000	1,16,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	—	1,00,000	Sundry debtors	1,60,000	2,00,000
Bank overdraft	80,000	—	Bank balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	<u>1,00,000</u>	<u>-----</u>
	<u>6,50,000</u>	<u>6,66,000</u>		<u>6,50,000</u>	<u>6,66,000</u>

The amalgamated firm took over the business on the following terms:

- Building of P & Co. was valued at ₹ 1,00,000.
- Plant and machinery of P & Co. was valued at ₹ 2,50,000 and that of R & Co. at ₹ 2,00,000.
- All stock in trade is to be appreciated by 20%.
- Goodwill valued of P & Co. at ₹ 1,20,000 and R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.
- Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.
- Provisions for doubtful debts has to be carried forward at ₹ 12,000 in respect of debtors of P & Co. and ₹ 26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

(Practice Manual)

Question 18

'S' and 'T' were carrying on business as equal partner. Their Balance Sheet as on 31st March, 2011 stood as follows:

Liabilities	₹	Assets	₹
Capital accounts:		Stock	2,70,000
S	6,40,000	Debtors	3,65,000
T	<u>6,60,000</u>	Furniture	75,000
Creditors		Joint life policy	47,500
Bank overdraft		Plant	1,72,500
Bills payable		Building	<u>9,10,000</u>
			<u>18,40,000</u>
			<u>18,40,000</u>

The operations of the business were carried on till 30th September, 2011. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by ₹ 50,000, Bills payable by ₹ 11,500 and Bank overdraft by ₹ 75,000. The Joint Life policy was surrendered for ₹ 47,500 on 30th September, 2011. Stock was valued at ₹ 3,17,000 and debtors at ₹ 3,25,000 on 30th September, 2011. The other items remained the same as on 31st March, 2011.

On 30th September, 2011 the firm sold its business to ST Ltd. The value of goodwill was estimated at ₹ 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2011. The ST Ltd. paid the purchase consideration in equity shares of ₹ 10 each. You are required to prepare a Realization Account and Capital accounts of the partners.

(Practice Manual)

Question 19

Ramesh, Roshan and Rohan were partners of the firm '3R Enterprises' sharing profits and losses in the ratio of 3:2:1 respectively. On 31st March, 2011 their Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Ramesh's Capital A/c	16,80,000	Land and Buildings	14,00,000
Roshan's Capital A/c	11,60,000	Machinery	11,00,000
Rohan's Capital A/c	6,70,000	Furniture	6,10,000
General Reserve	6,30,000	Stock	8,40,000
Creditors	6,00,000	Debtors	6,00,000
		Cash at Bank	1,90,000
	47,40,000		47,40,000

On the above-mentioned date, the partners decided to convert their firm into a private limited company and named it '3R Enterprises (Private) Ltd.'. The company took over all the assets including cash at bank and all the creditors for ₹ 42,00,000 payable in the form of fully paid equity shares of ₹ 10 each. It recorded in its books, land and buildings at ₹ 16,40,000, machinery at ₹ 9,90,000 and created a provision for bad debts @ 5% on debtors. The expenses of the take-over came to ₹ 23,000 which were paid and borne by the company.

The expenses of getting the company incorporated were ₹ 57,000.

The partners distributed the company's shares amongst themselves in their profit sharing ratio. They settled their accounts by paying or receiving cash.

Prepare Realization Account and all the partners' capital accounts in the firm's ledger and pass journal entries in the books of the company for all of its transactions mentioned above.

(Practice Manual)

Question 20

The following is the Balance Sheet of M/s. P and Q as on 31st March, 2012:

Liabilities	₹	Assets	₹
Capital Accounts:		Machinery	54,000
P	50,000	Furniture	5,000
Q	30,000	Investment	50,000
Reserves	20,000	Stock	20,000
Loan Account of Q	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		1,55,000

It was agreed that Mr. R is to be admitted for a fourth share in the future profits from 1st April, 2012. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital.

The following further information is furnished:

- (a) P & Q share the profits in the ratio 3 : 2.
- (b) P was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2005 in addition to share of profit.
- (c) The future profit ratio between P, Q & R will be 2:1:1. P will not get any salary after the admission of R.
- (d) It was agreed that the value of goodwill of the firm shall appear in the books of the firm. The goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended	Profit/ (Loss)
31st March, 2008	25,000
31st March, 2009	12,500
31st March, 2010	(2,500)
31st March, 2011	35,000
31st March, 2012	30,000

The above Profits and Losses are after charging the Salary of P. The Profit of the year ended 31st March, 2008 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2010 was on account of loss by strike to the extent of ₹ 20,000.

- (e) The cash trading profit for the year ended 31st March, 2013 was ₹ 50,000 before depreciation.
- (f) The partners had drawn each ₹ 1,000 p.m. as drawings.
- (g) The value of other assets and liabilities as on 31st March, 2013 were as under:

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

- (h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Q's loan. The loan alongwith interest would be repaid within next 12 months.
- (i) Investments are held from inception of the firm and interest is received @ 10% p.a.
- (j) The partners applied for conversion of the firm into a Private Limited Company.

Certificate was received on 1st April, 2013. They decided to convert Capital A/cs of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2013. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2013 and the Balance Sheet of the Company on 1st April, 2013.

(Practice Manual)

Question 21

P, Q and R were partners sharing profits and losses in the ratio of 3 : 2 : 1, no partnership salary or interest on capital being allowed. Their balance sheet on 30th June, 2012 is as follows:

Liabilities	₹	Assets	₹
Fixed Capital		Fixed assets :	
P	20,000	Goodwill	40,000
Q	20,000	Freehold Property	8,000
R	<u>10,000</u>	Plant and Equipment	12,800
Current Accounts :		Motor Vehicle	700
P	500	Current Assets	
Q	<u>9,000</u>	Stock	3,900
Loan from P	8,000	Trade Debtors	2,000
Trade Creditors	12,400	Less : Provision	<u>(100)</u>
		Cash at Bank	200
		Miscellaneous losses	
		R's Current Account	400
		Profit and Loss Account	<u>12,000</u>
	<u>79,900</u>		<u>79,900</u>

On 1st July, 2012 the partnership was dissolved. Motor Vehicle was taken over by Q at a value of ₹ 500 but no cash passed specifically in respect of this transaction. Sale of other assets realised the following amounts:

	₹
Goodwill	nil
Freehold Property	7,000
Plant and Equipment	5,000
Stock	3,000
Trade Debtors	1,600

Trade Creditors were paid ₹ 11,700 in full settlement of their debts. The costs of dissolution amounted to ₹ 1,500. The loan from P was repaid, P and Q were both fully solvent and able to bring in any cash required but R was forced into bankruptcy and was only able to bring 1/3 of the amount due.

You are required to show:

- Cash and Bank Account,
- Realisation Account, and
- Partners Fixed Capital Accounts (after transferring Current Accounts' balances).

(Study Material)

Question 22

Amal and Bimal are in equal partnership. Their Balance Sheet stood as under on 31st March, 2012 when the firm was dissolved:

	₹		₹
Creditors A/c	4,800	Plant & Machinery	2,500
Amal's Capital A/c	750	Furniture	500
		Debtors	1,000
		Stock	800
		Cash	200
		Bimal's drawings	550
	<u>5,550</u>		<u>5,550</u>

The assets realised as under:

	₹
Plant & Machinery	1,250
Furniture	150
Debtors	400
Stock	500

The expenses of realisation amounted to ₹ 175. Amal's private estate is not sufficient even to pay his private debts, whereas Bimal's private estate has a surplus of ₹ 200 only.

Show necessary ledger accounts to close the books of the firm.

(Study Material)

Question 23

A, B, C and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 2012 when their balance sheet was as under:

Liabilities	₹	Assets	₹
Creditors	15,700	Bank	535
Employees Provident Fund	6,300	Debtors	15,850
Capital Accounts :—		Stock	25,200
A 40,000		Prepaid Expenses	800
B 20,000	60,000	Plant & Machinery	20,000
		Patents	8,000
		C's Capital A/c	3,200
		D's Capital A/c	8,415
	<u>82,000</u>		<u>82,000</u>

Following information is given to you:—

1. One of the creditors took some of the patents whose book value was ₹ 5,000 at a valuation of ₹ 3,200. Balance of the creditors were paid at a discount of ₹ 400.
2. There was a joint life policy of ₹ 20,000 (not mentioned in the balance sheet) and this was surrendered for ₹ 4,500.
3. The remaining assets were realised at the following values:- Debtors ₹ 10,800; Stock ₹ 15,600; Plant and Machinery ₹ 12,000; and Patents at 60% of their book-values. Expenses of realisation amounted ₹ 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

(Study Material)

Question 24

M/s X, Y and Z who were in partnership sharing profits and losses in the ratio of 2:2:1 respectively, had the following Balance Sheet as at December 31, 2012:

Liabilities	₹	Assets	₹	₹
Capital : X	29,200	Fixed Assets		40,000
Y	10,800	Stock		25,000
Z	<u>10,000</u>	Book Debts	25,000	
Z's Loan	5,000	Less : Provision	(5,000)	20,000
Loan from Mrs. X	10,000	Cash		1,000
Sundry Trade Creditors	25,000	Advance to Y		4,000
	90,000			90,000

The firm was dissolved on the date mentioned above due to continued losses. After drawing up the balance sheet given above, it was discovered that goods amounting to ₹ 4,000 have been purchased in November, 2012 and had been received but the purchase was not recorded in books.

Fixed assets realised ₹ 20,000; Stock ₹ 21,000 and Book Debt ₹ 20,500. Similarly, the creditors allowed a discount of 2% on the average. The expenses of realisation come to ₹ 1,080. X agreed to take over the loan of Mrs. X. Y is insolvent, and his estate is unable to contribute anything.

Give accounts to close the books; work according to the decision in Garner vs. Murray.

(Study Material)

Question 25

'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2:2:1.

On 30th September, 2012 their Balance Sheet was as follows:

Liabilities	₹	Assets	₹
Capital Accounts :		Premises	50,000
Thin	80,000	Fixtures	1,25,000
Short	50,000	Plant	32,500
Fat	<u>20,000</u>	Stock	43,200
Current Accounts :		Debtors	54,780
Thin	29,700		
Short	11,300		
Fat (Dr.)	<u>(14,500)</u>		
Sundry Creditors			
Bank Overdraft			
	84,650		
	<u>44,330</u>		
	<u>3, 05,480</u>		<u>3, 05,480</u>

'Thin' decides to retire on 30th September, 2012 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2012. It then transpires that 'Fat' has no private assets whatsoever.

The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realize ₹ 45,900. Realisation expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

- (i) Realisation Account;
- (ii) Partners' Current Accounts;
- (iii) Partners' Capital Accounts showing the closing of the firm's books.

(Study Material)

Question 26

The following is the Balance Sheet of A, B, C on 31st December, 2012 when they decided to dissolve the partnership:

Liabilities	₹	Assets	₹
Creditors	2,000	Sundry Assets	48,500
A's Loan	5,000	Cash	500
Capital Accounts :			
A	15,000		
B	18,000		
C	9,000		
	49,000		49,000

The assets realised the following sums in instalments:

I	1,000
II	3,000
III	3,900
IV	6,000
V	<u>20,100</u>
	<u>34,000</u>

The expenses of realisation were expected to be ₹ 500 but ultimately amounted to ₹ 400 only.

Show how at each stage the cash received should be distributed between partners. They share profits in the ratio of 2:2:1.

(Study Material)

Question 27

The partners A, B and C have called you to assist them in winding up the affairs of their partnership on 30th June, 2012. Their Balance Sheet as on that date is given below:

Liabilities	₹	Assets	₹
Sundry Creditors	17,000	Cash at Bank	6,000
Capital Accounts :		Sundry Debtors	22,000
A	67,000	Stock in trade	14,000
B	45,000	Plant and Equipment	99,000
C	31,500	Loan-A	12,000
		Loan-B	7,500
	1,60,500		1,60,500

(1) The partners share profit and losses in the ratio of 5:3:2

(2) Cash is distributed to the partners at the end of each month

(3) A summary of liquidation transactions are as follows:

July 2012

₹ 16,500	–	collected from Debtors; balance is uncollectable.
₹ 10,000	–	received from sale of entire stock.
₹ 1,000	–	liquidation expenses paid.
₹ 8,000	–	cash retained in the business at the end of the month.

August 2012

₹ 1,500	–	liquidation expenses paid. As part payment of his Capital, C accepted a piece of equipment for ₹ 10,000 (book value ₹ 4,000).
₹ 2,500	–	cash retained in the business at the end of the month.

September 2012

₹ 75,000	–	received on sale of remaining plant and equipment.
₹ 1,000	–	liquidation expenses paid. No cash retained in the business.

Required: Prepare a schedule of cash payments as of September 30, showing how the cash was distributed.

(Study Material)

Question 28

The firm of LMS was dissolved on 31.3.2012, at which date its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital			
L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		47,00,000

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at ₹ 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realisations are:

S.No.	Amount in ₹
1	5,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

(Study Material)

Question 29

Daksh Associates is a reputed firm. On account of certain misunderstanding between the partners, it was decided to dissolve the firm as on 31st December, 2011. Their Balance Sheet as on 31st December, 2011 was follows:

Liabilities	₹	Assets	₹
Capitals:		Land and Buildings	7,00,000
Daksh 3,00,000		Other Fixed Assets	3,00,000
Yash 2,00,000		Stock in Trade	2,00,000
Siddhart (Minor) <u>1,00,000</u>		Debtors	4,00,000
	6,00,000	Bills Receivable	1,50,000
Trade Loans	3,00,000	Goodwill	30,000
Bank Overdraft	3,00,000	Cash	20,000
Other Loans	2,00,000		
Creditors	2,00,000		
Siddhart's Loan	<u>2,00,000</u>		
	<u>18,00,000</u>		<u>18,00,000</u>

It was decided that Mr. Daksh shall be in-charge of Realisation. He shall set apart ₹ 10,000 towards expenses. He shall be paid a remuneration of 5 percent on the amounts distributed to the partners towards their contribution other than loans. Assets realized are as under:

		₹
1-1-2012	Debtors	3,50,000
15-1-2012	Fixed Assets	4,00,000
1-2-2012	Debtors	50,000
15-2-2012	Bills Receivable	1,40,000
1-3-2012	Fixed Assets	50,000
15-3-2012	Land and Buildings	8,00,000

Prepare a statement showing how the money received on various dates will be distributed assuming:

- The actual expenses of realization amounted to ₹ 20,005.
- The firm is solvent.
- The profit sharing ratio was as under:

	Profit	Loss
Daksh	2	1
Yash	2	1
Siddhart	<u>1</u>	<u>Nil</u>
	<u>5</u>	<u>2</u>

- The final dissolution is made on 15th March, 2012

(Study Material)

Question 30

B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1.

On 31st October, 2012, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B, S and T would be partners sharing profits and losses in the ratio of 3:2:1.

Their balance sheets on that date were as under:

Liabilities	S & Co. ₹	T & Co. ₹	Assets	S & Co. ₹	T & Co. ₹
Due to X & Co.	40,000	–	Cash in hand	10,000	5,000
Due to S & Co.	–	50,000	Cash at bank	15,000	20,000
Other Creditors	60,000	58,000	Due from T & Co.	50,000	–
Reserves	25,000	50,000	Due from X & Co.	–	30,000
Capitals			Other Debtors	80,000	1,00,000
B	1,20,000	–	Stock	60,000	70,000
S	80,000	1,00,000	Furniture	10,000	3,000
T	–	50,000	Vehicles	–	80,000
			Machinery	75,000	–
			Building	25,000	–
	3,25,000	3,08,000		3,25,000	3,08,000

The amalgamated firm took over the business on the following terms:

- Goodwill of S & Co. was worth ₹ 60,000 and that of T & Co. ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
- Building, machinery and vehicles were taken over at ₹ 50,000, ₹ 90,000 and ₹ 1,00,000 respectively.
- Provision for doubtful debts has to be carried forward at ₹ 4,000 in respect of debtors of S & Co. and ₹ 5,000 in respect of debtors of T & Co.

You are required to:

- Compute the adjustments necessary for goodwill.
- Pass the journal entries in the books of BST & Co. assuming that excess/deficit capital (taking T's Capital as base) with reference to share in profits are to be transferred to current accounts.

(Study Material)

Question 31

On 31st March 2012, Sri Raman acquires on payment of ₹ 80,000 the business of M/s Gupta and Singh taking over at book value the following assets and liabilities :

	₹
Debtors	35,000
Furniture	3,000
Stock	46,000
Creditors	10,000

There was no change between 1st January, 2012 and 31st March, 2012 in the book value of the assets and liabilities not taken over.

The same set of books has been continued after the acquisition and no entries of the acquisition have been passed except for the payment of ₹ 80,000 made by Sri Raman.

From the following balance sheet and trial balance prepare Business Purchase Account, Profit and Loss Account for the year ended 31st December, 2012 and Balance Sheet at that date.

Balance Sheet as at December, 2011

Liabilities		₹	Assets	₹
Capital Accounts			Furniture	3,000
Sri Gupta	30,000		Investments	5,000
Sri Singh	20,000	50,000	Insurance Policy	2,000
Bank Loan		18,000	Stock	40,000
Creditors		12,000	Debtors	30,000
		80,000		80,000

On 31st December 2012 the trial balance is:

	₹	₹
Stock	40,000	
Furniture	3,000	
Investment	5,000	
Insurance Policy	2,000	
Business Purchase Account	80,000	
Bank Loan		18,000
Capital :		
Gupta		30,000
Singh		20,000
Raman		30,000
Bank	3,000	
Debtors	48,000	
Creditors		15,000
Purchases	3,20,000	
Expenses	12,000	
Sales		4,00,000
Closing Stock ₹ 50,000	5,13,000	5,13,000

(Study Material)

Question 32

Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3.

On 31st March, 2012 it was decided to amalgamate both the firms and form a new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2012

Liabilities	X & Co.	Y & Co.	Assets	X & Co.	Y & Co.
	₹	₹		₹	₹
Capital:			Cash in hand/bank	40,000	30,000
A	1,50,000	---	Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C	---	50,000	Vehicles	---	90,000
Reserve	50,000	40,000	Machinery	1,20,000	---
Creditors	<u>1, 20,000</u>	<u>55,000</u>	Building	<u>1, 50,000</u>	<u>---</u>
	<u>4, 20,000</u>	<u>2,20,000</u>		<u>4, 20,000</u>	<u>2,20,000</u>

The following were the terms of amalgamation:

- Goodwill of X & Co., was valued at ₹ 75,000. Goodwill of Y & Co. was valued at ₹ 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.
- Building, Machinery and Vehicles are to be taken over at ₹ 2,00,000, ₹ 1,00,000 and ₹ 74,000 respectively.
- Provision for doubtful debts at ₹ 5,000 in respect of X & Co. and ₹ 4,000 in respect of Y & Co. are to be provided.

You are required to:

- Show, how the Goodwill value is adjusted amongst the partners.
- Prepare the Balance Sheet of XY & Co. as at 31.3.2012 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts.

(Study Material)

Question 33

The following is the Balance Sheet of Messers A and B as on 31st March 2011:

Liabilities	₹	Assets	₹
A's Capital	40,000	Land and Buildings	50,000
B's Capital	<u>50,000</u>	Stock	30,000
A's Loan	10,000	Debtors	20,000
General Reserve	10,000	Investment	
Liabilities	20,000	6% Debentures in X Ltd.	20,000
		Cash	10,000
	<u>1,30,000</u>		<u>1,30,000</u>

It was agreed that Mr. C is to be admitted for a fifth share in the future profits from 1st April 2011. He is required to contribute cash towards goodwill and ₹ 10,000 towards capital.

The following further information is furnished:

- The partners A and B shared the profits in the ratio 3:2.

- (ii) Mr. A was receiving a salary of ₹ 500 p.m. from the very inception of the firm in 1998 in addition to share of profit.
- (iii) The future profit ratio between A, B and C will be 3:1:1. Mr. A will not get any salary after the admission of Mr. C.
- (iv) (a) The goodwill of the firm shall be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

			₹
Year ended	31-3-07	Profit	20,000
Year ended	31-3-08	Loss	10,000
Year ended	31-3-09	Profit	20,000
Year ended	31-3-10	Profit	25,000
Year ended	31-3-11	Profit	30,000

The above profits and losses are after charging the salary of Mr. A. The profit of the year ended 31st March 2007 included an extraneous profit of ₹ 30,000 and the loss of the year ended 31st March 2008 was on account of loss by strike to the extent of ₹20,000.

- (b) It was agreed that the value of the goodwill of the firm shall appear in the books of the firm.
- (v) The trading profit for the year ended 31st March, 2012 was ₹ 40,000 before depreciation.
- (vi) The partners had drawn each ₹ 1,000 p.m. as drawings.
- (vii) The value of the other assets and liabilities as on 31st March, 2012 were as under:

	₹
Building (before depreciation)	60,000
Stock	40,000
Debtors	Nil
Investment	20,000
Liabilities	Nil

- (viii) Provide depreciation at 5% on land and buildings on the closing balance and interest at 6% on A's loan.
- (ix) They applied for conversion of the firm into a Private Limited Company i.e. ABC Pvt. Ltd.. Certificate received on 1-4-2012. They decided to convert Capital A/cs of the partners into share capital in the ratio of 3 : 1 : 1 on the basis of total Capital as on 31-3-2012. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Statement of Profit and Loss for the year ended 31st March, 2012 and the Balance Sheet of the company.

(Study Material)

Question 34

Hari, Lal and Jay have been in partnership for a number of years, sharing profits/losses in the ratio of 2:2:1 as wholesale stationers trading under the name 'Hari Brothers'. They decide to convert their partnership into a limited company (with effect from 1st January, 2013) to be known as Hari Ltd.

Immediately prior to this conversion the balance sheet of partnership as at 31st December 2012 was as follows:

Balance Sheet
As on 31st December 2012

Liabilities	₹	₹	Assets	₹
Capital accounts			Fixed assets	
Hari	70,000		(at written down value)	
Lal	30,000		Land & Buildings	50,000
Jay	<u>20,000</u>	1,20,000	Plant & Machinery	30,000
Current accounts			Motor vehicles	20,000
Hari	7,000		Current Assets:	
Lal	5,000		Inventories	60,000
Jay	<u>3,000</u>	15,000	Debtors	25,000
Current liabilities			Axis Bank account	5,000
Creditors	25,000			
Dena Bank account	<u>20,000</u>	45,000		
Long-term liabilities				
Loan-Hari	3,000			
Loan-Gopi Ltd.	<u>7,000</u>	<u>10,000</u>		
		<u>1,90,000</u>		<u>1,90,000</u>

The terms of conversion are that Hari Ltd. is to take over the assets and liabilities of Hari Brothers as follows:

	Valuation for take-over ₹
Land and Building	96,000
Plant and Machinery	28,000
Motor vehicles	15,000
Inventories	60,000
Debtors	24,000
Creditors	25,000
Goodwill	10,000

The closing balance in Axis Bank account is to be transferred to Dena Bank account before all the other dissolution entries are effected in the partnership ledgers.

Lal took over one of the motor vehicles at an agreed amount of ₹ 2,000. All other liabilities were paid from the Dena Bank account.

The purchase consideration is discharged by an issue at par of ₹ 60,000 10% Debentures (fully paid) to the partners in their capital account proportions as shown in the above balance sheet plus equity shares in Hari Ltd. of ₹ 1 each (fully paid to make up the balance due to each partner).

You are required to

- (i) prepare (a) Realisation Account (b) Partners' Capital Accounts (c) Bank account of Axis Bank and Dena Bank in the books of Hari Brothers;
- (ii) 'Business purchase account' and 'Hari Brothers' account in Hari Ltd.'s books.

(Study Material)

Question 35

A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2011 was:

Liabilities	₹	Assets	₹
Sundry Creditors	60,000	Stock	60,000
Bank overdraft	35,000	Machinery	1,50,000
Capital A/cs:		Debtors	70,000
A 1,40,000		Joint Life Policy	9,000
B 1, 30,000	2,70,000	Leasehold Premises	34,000
		Profit & Loss A/c	26,000
		Drawings Accounts:	
		A 10,000	
		B 6, 000	16,000
	3,65,000		3,65,000

The business was carried on till 30.6.2012. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹ 10,000 and bank overdraft by ₹ 15,000.

On 30.6.2012, stock was valued at ₹ 75,000 and Debtors at ₹ 60,000; the Joint Life Policy had been surrendered for ₹ 9,000 before 30.6.2012 and other items remained the same as at 31.12.2011.

On 30.6.2012, the firm sold the business to a Limited Company. The value of goodwill was fixed at ₹ 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.2012. The company paid the purchase consideration in Equity Shares of ₹ 10 each.

You are required to prepare: (a) Balance Sheet of the firm as at 30.6.2012; (b) The Realisation Account; (c) Partners' Capital Accounts showing the final settlement between them.

(Study Material)

Question 36

A, B and C were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capitals or drawings.

A died on 1.1.2011 and on that date, the partners' balance were as under:

Capital Account : A – ₹ 60,000; B- ₹ 40,000; C- ₹ 20,000

Current Account: A – ₹ 29,000; B – ₹ 20,000; C – ₹ 5,000 (Dr.).

By the partnership agreement, the sum due to A's estate was required to be paid within a period of 3 years, and minimum instalment of ₹ 20,000 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 5% p.a. was to be credited half-yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 60,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 36,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 20,000 matured on 1.1.2011, realizing ₹ 26,000; payments of ₹ 20,000 each were made to A's Executors on 1.1.2011, 30.6.2011 and 31.12.2011. B and C continued trading on the same terms as previously and the net profit for the year to 31.12.2011 (before charging the interest due to A's estate) amounted to ₹ 32,000. During that period, the partners drawings were: B- ₹ 15,000; and C- ₹ 8,000.

On 1.1.2012, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,40,000 was accepted on that day. A cheque for that sum was received on 30.6.2012.

The balance due to A's estate, including interest, was paid on 30.6.2012 and on that day, B and C received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.1.2011 to 30.6.2012. Show also the account of the executors of A.

(Study Material)

Question 37

Prabhu & Co. is a partnership firm consisting of Mr. Prabhu, Mr. Bhola and Mr. Shiv who share profits and losses in the ratio of 2:2:1 and Bhagwan Ltd. is a company doing similar business.

Following is the Balance sheet of the firm and that of the company as at 31.3.2012:

Liabilities	Prabhu & Co.	Bhagwan Ltd.		Prabhu & Co.	Bhagwan Ltd.
	₹	₹		₹	₹
Equity share Capital:			Plant & machinery	2,50,000	8,00,000
Equity shares of ₹ 10 each		10,00,000	Furniture & fixture	25,000	1,12,500
Partners' capital:			Stock in trade	1,00,000	4,25,000
Prabhu	1,00,000		Sundry debtors	1,00,000	4,12,500
Bhola	1,50,000		Cash at bank	5,000	2,00,000
Shiv	50,000		Cash in hand	20,000	50,000
General reserve	50,000	3,50,000			
Sundry creditors	<u>1,50,000</u>	<u>6,50,000</u>			
	<u>5,00,000</u>	<u>20,00,000</u>		<u>5,00,000</u>	<u>20,00,000</u>

It was decided that the firm Prabhu & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by Bhagwan Ltd. by issuing 25,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of Prabhu & Co. agreed to divide the shares issued by Bhagwan Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of Prabhu & Co. includes ₹ 50,000 payable to Bhagwan Ltd. An unrecorded liability of ₹ 12,500 of Prabhu & Co. must also be taken over by Bhagwan Ltd.

Prepare:

- Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of Prabhu & Co.
- Pass journal entries in the books of Bhagwan Ltd. for acquisition of Prabhu & Co.

Question 38

P and Q were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.2013 was:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant	1,60,000
P	1,50,000	Building	48,000
Q	<u>1,30,000</u>	Debtors	75,000
Sundry Creditors	80,000	Stock	70,000
Bank Overdraft	45,000	Joint Life Policy	6,000
		Profit & Loss A/c	30,000
		Drawings Account:	
		P	9,000
		Q	<u>7,000</u>
	<u>4,05,000</u>		<u>16,000</u>
			<u>4,05,000</u>

The operations of the business were carried on till 30.06.2014. P and Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by ₹ 20,000 and bank overdraft by ₹ 5,000.

The joint life policy was surrendered for ₹ 6,000 before 30th June 2014. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:

- Balance sheet of the firm as at 30.06.2014,
- Realisation account,
- Partners' Capital Accounts showing the final settlement between them.

(Study Material)

Past Examination Questions

UNIT 1: DISSOLUTION OF FIRMS

Question 39

'X' and 'Y' carrying on business in partnership sharing Profits and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2006, when the firm's position was as follows:

Liabilities	₹	Assets	₹
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1,00,000	Furniture	40,000
Sundry Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	<u>3,10,000</u>		<u>3,10,000</u>

The arrangement with X Limited Company was as follows:

- (i) Land and Building was purchased at 20% more than the book value.
- (ii) Furniture and stock were purchased at book values less 15%.
- (iii) The goodwill of the firm was valued at ₹40,000.
- (iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.
- (v) The purchase price was to be discharged by the company in fully paid equity shares of ₹10 each at a premium of ₹2 per share.

The company collected all the amounts from debtors. The creditors were paid off less by ₹1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

(November 2006, 16 Marks)

Question 40

Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.

(May 2008 & May 2013, 2 Marks)

Question 41

P, Q and R are partners sharing profits and losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2009 is as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant & Machinery	1,08,000
P 1,20,000		Fixtures	24,000
Q 48,000		Stock	60,000
R 24,000	1,92,000	Sundry debtors	48,000
Reserve fund	60,000	Cash	60,000
Creditors	48,000		
	3,00,000		3,00,000

They decided to dissolve the firm. The following are the amounts realised from the assets:

	₹
Plant & Machinery	1,02,000
Fixtures	18,000
Stock	84,000
Sundry debtors	44,400

Creditors allowed a discount of 5% and realisation expenses amounted to ₹1,500. A bill for ₹4,200 due for sales tax was received during the course of realisation and this was also paid. You are required to prepare:

- (a) Realisation account
- (b) Partners capital account
- (c) Cash account

(November 2009, 6 Marks)

Question 42

What is Piecemeal payments method under Partnership Dissolution? Briefly explain the two methods followed for determining the order in which the payments are made?

(May 2010, 2 Marks)

Question 43

A, B, C, and D are sharing profits and losses in the ratio 5 : 5 : 4 : 2. Frauds committed by C during the year were found out and it was decided to dissolve the partnership on 31st March 2010 when their Balance Sheet was as under:

Liabilities	Amount (₹)		Amount (₹)
Capital		Building	1,20,000
A	90,000	Stock	85,500
B	90,000	Investments	29,000
C	—	Debtors	42,000
D	35,000	Cash	14,500
General reserve	24,000	C	15,000
Trade creditors	47,000		
Bills payable	20,000		
	3,06,000		3,06,000

Following information is given to you:

- (i) A cheque for ₹ 4,300 received from debtor was not recorded in the books and was misappropriated by C.
- (ii) Investments costing ₹ 5,400 were sold by C at 7,900 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- (iii) A creditor agreed to take over investments of the book value of ₹ 5,400 at ₹ 8,400. The rest of the creditors were paid off at a discount of 2%.
- (iv) The other assets realised as follows:

Building	105% of book value
Stock	₹ 78,000
Investments	The rest of investments were sold at a profit of ₹ 4,800
Debtors	The rest of the debtors were realised at a discount of 12%
- (v) The bills payable were settled at a discount of ₹ 400.
- (vi) The expenses of dissolution amounted to ₹ 4,900.
- (vii) It was found out that realisation from C's private assets would only be ₹ 4,000.

Prepare the necessary Ledger Accounts.

(November 2010, 16 Marks)

Question 44

P, Q, R and S had been carrying on business in partnership sharing profits & losses in the ratio of 4:3:2:1. They decided to dissolve the partnership on the basis of following Balance Sheet as on 30th April, 2011:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts		Land & building	2,46,000
P 1,68,000		Furniture & fixtures	65,000
Q <u>1,08,000</u>	2,76,000	Stock	1,00,000
General reserve	95,000	Debtors	72,500
Capital reserve	25,000	Cash in hand	15,500
Sundry creditors	36,000	Capital overdrawn:	
Mortgage loan	1,10,000	R 25,000	
		S <u>18,000</u>	43,000
	5,42,000		5,42,000

- (i) The assets were realized as under: ₹
- | | |
|----------------------|----------|
| Land & building | 2,30,000 |
| Furniture & fixtures | 42,000 |
| Stock | 72,000 |
| Debtors | 65,000 |
- (ii) Expenses of dissolution amounted to ₹7,800.
- (iii) Further creditors of ₹18,000 had to be met.
- (iv) R became insolvent and nothing was realized from his private estate.

Applying the principles laid down in Garner Vs. Murray, prepare the Realisation Account, Partners' Capital Accounts and Cash Account.

(November, 2011, 16 Marks)

Question 45

Ajay Enterprise, a Partnership firm in which A, B and C are three partners sharing profits and losses in the ratio of 4 : 3 : 3. The balance sheet of the firm as on 31st December, 2011 is as below:

Liabilities	₹	Assets	₹
A's Capital	15,000	Factory Building	24,160
B's Capital	7,500	Plant & Machinery	16,275
C's Capital	15,000	Debtors	5,400
B's Loan A/c	4,500	Stock	12,390
Sundry Creditors	16,500	Cash at Bank	275
	58,500		58,500

On balance sheet date all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decide to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realized other than cash at Bank and 10% of the amount distributed to the partners.

Assets were realized piece-meal as under:

	₹
First instalment	₹ 18,650
Second instalment	₹ 17,320
Third instalment	₹ 10,000
Last instalment	₹ 7,000
Dissolution expenses were provided for estimated amount of	₹ 3,000
The creditors were settled finally for	₹ 15,900

Prepare a statement showing distribution of cash amongst the partners by 'Higher Relative capital method'.

(May 2012, 16 Marks)

Question 46

The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	1,63,500	Total	1,63,500

- The partners share profit and losses in the ratio of 4 : 3 : 2.
- Cash is distributed to the partners at the end of each month.
- A summary of liquidation transactions are as follows:

January 2014

 - ₹ 9,000 - collected from debtors; balance is uncollectable.
 - ₹ 8,000 - received from the sale of entire furniture
 - ₹ 1,000 - Liquidation expenses paid.
 - ₹ 6,000- Cash retained in the business at the end of month

February 2014

 - ₹ 1,000 - Liquidation expenses paid.
 - As part payment of his capital, R accepted a machinery for ₹9,000 (book value ₹ 3,500)
 - ₹ 2,000 — Cash retained in the business at the end of month

March 2014

- ₹ 38,000 received on the sale of remaining plant and machinery.
- ₹ 10,000 — received from the sale of entire stock.
- ₹ 1,700 — Liquidation expenses paid.
- ₹ 41,000 — Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

(May 2014, 16 Marks)

Question 47

W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the firm will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium.

- (i) List the criteria for the calculation of the amount of refund.
- (ii) Also list any two conditions when no claim in this respect will arise.

(May 2014, 4 Marks)

Question 48

P and Q were carrying on business sharing profits and losses equally. The firms Balance Sheet as on 31.12.2013 was:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant	1,60,000
P 1,50,000		Building	48,000
Q 1,30,000	2,80,000	Debtors	75,000
Sundry Creditors	80,000	Stock	70,000
Bank Overdraft	45,000	Joint life policy	6,000
		Profit & Loss A/c	30,000
		Drawing Account :	
		P 9,000	
		Q 7,000	16,000
Total	4,05,000	Total	4,05,000

The operations of the business were carried on till 30.06.2014. P & Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by ₹ 20,000 and bank overdraft by ₹ 5000.

The joint life policy was surrendered for ₹ 6000 before 30th June 2014. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare:

- Balance sheet of the firm as at 30.06.2014,
- Realisation account,
- Partners' Capital Accounts showing the final settlement between them.

(November 2014, 16 Marks)

Question 49

Riu, Inu and Sinu were running Partnership business sharing Profits and Losses in 2: 2: 1 ratio. Their Balance Sheet as on 31st March, 2003 stood as follows:

Balance Sheet as on 31st March, 2003

(Figures in ₹'000)

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Fixed Capital:			Fixed Assets		400.00
Ritu	300.00		Investment		50.00
Inu	200.00		Current Assets:		
Sinu	100.00	600.00	Stock	100.00	
Current Accounts:			Debtors	275.00	
Riu	60.00		Cash & Bank	125.00	500.00
Sinu	40.00	100.00			
Unsecured Loans		100.00			
Current Liabilities		150.00			
		950.00			950.00

On 01.04.2003, they agreed to form a New company RIS (P) Ltd. with Inu and Sinu each taking up 200 shares of ₹ 10 each, which shall take over the firm as a going concern including Goodwill, but excluding Cash. & Bank Balances. The following are also agreed upon:

- Goodwill will be valued at 3 year's purchase of super profits.
- The actual profit for the purpose of Goodwill valuation will be ₹ 2,00,000.
- The normal rate of return will be 18% per annum on Fixed Capital.
- All other Assets and Liabilities will be taken over at Book values.
- The Purchase Consideration will be payable partly in Shares of ₹ 10 each and party in cash. Payment in Cash being to meet the requirement to Discharge Riu, who has agreed to retire.
- Inu and Sinu are to acquire Interest in the new company at the ratio 3: 2.
- Realisation expenses amounted to ₹ 51,000

You are required to prepare Realisation Account, Cash and Bank Account, RIS (P) Limited Account and Capital Account of Partners.

(May 2004, 16 Marks)

Question 50

Firm X & Co. consists of partners A and B sharing Profits and Losses in the ratio of 3 : 2. The firm Y & Co. consists of partners B and C sharing Profits and Losses in the ratio of 5 : 3.

On 31st March, 2012 it was decided to amalgamate both the firms and form a new firm XY & Co., wherein A, B and C would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2012

Liabilities	X & Co.	Y & Co.	Assets	X & Co.	Y & Co.
	₹	₹		₹	₹
Capital:			Cash in hand/bank	40,000	30,000
A	1,50,000	---	Debtors	60,000	80,000
B	1,00,000	75,000	Stock	50,000	20,000
C	---	50,000	Vehicles	---	90,000
Reserve	50,000	40,000	Machinery	1,20,000	---
Creditors	<u>1, 20,000</u>	<u>55,000</u>	Building	<u>1, 50,000</u>	<u>---</u>
	<u>4, 20,000</u>	<u>2,20,000</u>		<u>4, 20,000</u>	<u>2,20,000</u>

The following were the terms of amalgamation:

- Goodwill of X & Co., was valued at ₹ 75,000. Goodwill of Y & Co. was valued at ₹ 40,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.
- Building, Machinery and Vehicles are to be taken over at ₹ 2,00,000, ₹ 1,00,000 and ₹ 74,000 respectively.
- Provision for doubtful debts at ₹ 5,000 in respect of X & Co. and ₹ 4,000 in respect of Y & Co. are to be provided.

You are required to:

- Show, how the Goodwill value is adjusted amongst the partners.
- Prepare the Balance Sheet of XY & Co. as at 31.3.2012 by keeping partners capital in their profit sharing ratio by taking capital of 'B' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts.

(May 2006, 16 Marks)

Question 51

'S' and 'T' were carrying on business as equal partner. Their Balance Sheet as on 31st March, 2008 stood as follows:

Liabilities	₹	Assets	₹
Capital accounts:		Stock	2,70,000
S	6,40,000	Debtors	3,65,000
T	<u>6,60,000</u>	Furniture	75,000
Creditors	3,27,500	Joint life policy	47,500
Bank overdraft	1,50,000	Plant	1,72,500
Bills payable	<u>62,500</u>	Building	<u>9,10,000</u>
	<u>18,40,000</u>		<u>18,40,000</u>

The operations of the business were carried on till 30th September, 2008. S and T both withdrew in equal amounts half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by ₹ 50,000, Bills payable by ₹ 11,500 and Bank overdraft by ₹ 75,000. The Joint Life policy was surrendered for ₹ 47,500 on 30th September, 2008. Stock was valued at ₹ 3,17,000 and debtors at ₹ 3,25,000 on 30th September, 2008. The other items remained the same as on 31st March, 2008.

On 30th September, 2008 the firm sold its business to ST Ltd. The value of goodwill was estimated at ₹ 5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2008. The ST Ltd. paid the purchase consideration in equity shares of ₹10 each. You are required to prepare a Realization Account and Capital accounts of the partners.

(November 2008, 8 Marks)

Question 52

XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

Following is the Balance sheet of the firm and that of the company as at 31.3.2009:

Liabilities	XYZ & Co. ₹	ABC Ltd. ₹		XYZ & Co ₹	ABC Ltd. ₹
Equity share Capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of ₹10 each		20,00,000	Furniture & fixture	50,000	2,25,000
Partners capital:			Stock in trade	2,00,000	8,50,000
X	2,00,000		Sundry debtors	2,00,000	8,25,000
Y	3,00,000		Cash at bank	10,000	4,00,000
Z	1,00,000		Cash in hand	40,000	1,00,000
General reserve	1,00,000	7,00,000			
Sundry creditors	3,00,000	13,00,000			
	10,00,000	40,00,000		10,00,000	40,00,000

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of ₹10 each at a premium of ₹2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of XYZ & Co. includes ₹1,00,000 payable to ABC Ltd. An unrecorded liability of ₹25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

- Realisation account, Partners capital account and Cash in hand/Bank account in the books of XYZ & Co.
- Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.

(November 2009, 16 Marks)

Question 53

P and Q are partners of P & Co. sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing profits and losses in the ratio of 2:1. On 31st March, 2009, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	P & Co. ₹	R & Co. ₹	Assets	P & Co. ₹	R & Co. ₹
Capitals:			Fixed assets:		
P	2,40,000	—	Building	50,000	60,000
Q	1,60,000	2,00,000	Plant & machinery	1,50,000	1,60,000
R	—	1,00,000	Office equipment	20,000	6,000
Reserves	50,000	1,50,000	Current assets:		
Sundry creditors	1,20,000	1,16,000	Stock-in-trade	1,20,000	1,40,000
Due to P & Co.	—	1,00,000	Sundry debtors	1,60,000	2,00,000
Bank overdraft	80,000	—	Bank balance	30,000	90,000
			Cash in hand	20,000	10,000
			Due from R & Co.	1,00,000	-----
	6,50,000	6,66,000		6,50,000	6,66,000

The amalgamated firm took over the business on the following terms:

- Building of P & Co. was valued at ₹1,00,000.
- Plant and machinery of P & Co. was valued at ₹2,50,000 and that of R & Co. at ₹2,00,000.
- All stock in trade is to be appreciated by 20%.
- Goodwill valued of P & Co. at ₹1,20,000 and R & Co. at ₹60,000, but the same will not appear in the books of PQR & Co.
- Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.
- Provisions for doubtful debts has to be carried forward at ₹12,000 in respect of debtors of P & Co. and ₹26,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

(May 2010, 16 Marks)

Question 54

A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2011, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	AB & Co. (₹)	CD & Co. (₹)	Assets	AB & Co. (₹)	CD & Co. (₹)
Capitals					
A	1,50,000		Building	75,000	90,000
B	1,00,000		Machinery	1,20,000	1,00,000
C		1,20,000	Furniture	15,000	12,000
D		80,000	Stock	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD		
Due to AB & Co.		47,000	& Co.	47,000	
			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

- Building was taken over at ₹1,00,000 and ₹1,25,000 of AB & Co. and CD & Co. respectively. And machinery was taken over at ₹1,25,000 and ₹1,10,000 of AB & Co. and CD & Co. respectively.
- Goodwill of AB & Co. was worth ₹75,000 and that of CD & Co. was worth ₹50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partner.
- Provision for doubtful debts has to be carried forward at ₹5,000 in respect of debtors of AB & Co. and ₹8,000 in respect of CD & Co.

You are required:

- Compute the adjustments necessary for goodwill.
- Pass the Journal Entries in the books of AD & Co. assuming that excess/ deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts.

(May 2011, 16 Marks)

Question 55

P, Q and R are partners sharing profits and losses in the ration 3 : 2 : 1 after allowing interest on capital @ 9% p.a. Their Balance Sheet as at 31st March, 2012 are as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant & Machinery	1,08,000
P 50,000		Fixtures	20,000
Q 30,000		Stock	50,000
R <u>20,000</u>	1,00,000	Sundry Debtors	30,000
Reserve Fund	60,000		
Creditors	48,000		
	2,08,000		2,08,000

They applied for conversion of the firm into a Private Limited Company named PQR Pvt. Ltd. and the certificate was received on 01-04-2012. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capital as far as possible. For that purpose, they decided to insert a clause of issuance of Preference shares in Memorandum of Association in addition to issuance of Equity shares of ₹10 each.

On 01-04-2012, the value of goodwill is to be determined on the basis of 2 years' purchase of the average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31.03.2008	Profit	10,000
Year ended 31.03.2009	Loss	5,000
Year ended 31.03.2010	Profit	18,000
Year ended 31.03.2011	Profit	27,000
Year ended 31.03.2012	Profit	30,000

The loss for the year ended 31-03-2009 was on account of loss by strike to the extent of ₹10,000. It was agreed that rest of the assets are valued on the basis of the Balance Sheet as at 31-03-2012 except Plant & Machinery which is valued at ₹1,02,000.

You are required to prepare (a) the Balance Sheet of the Company as at 01-04-2012, (b) Partners' Capital Account and (c) Statement showing the final settlement between the partners taking Q's capital as basis.

(November 2012, 16 Marks)

Question 56

The following is the Balance Sheet of M/s. P and Q as on 31st March, 2012:

Liabilities	₹	Assets	₹
Capital Account:		Machinery	54,000
P	50,000	Furniture	5,000
Q	30,000	Investment	50,000
Reserves	20,000	Stock	20,000
Loan Account of Q	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		1,55,000

It was agreed that Mr. R is to be admitted for a fourth share in the future profits from 1st April, 2012. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital.

The following further information is furnished:

- P & Q share the profits in the ratio 3:2
- P was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2005 in addition to share of profit.
- The future profit ratio between P, Q & R will be 2: 1: 1. P will not get any salary after the admission of R.
- It was agreed that the value of goodwill of the firm shall appear in the books of the firm. The goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended	Profit/(Loss) ₹
31st March, 2008	25,000
31st March, 2009	12,500
31st March, 2010	(2,500)
31st March, 2011	35,000
31st March, 2012	30,000

The above Profits and Losses are after charging the Salary of P. the Profit of the year ended 31st March, 2008 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2010 was on account of loss by strike to the extent of ₹ 20,000.

- (e) The cash trading profit for the year ended 31st March, 2013 was ₹ 50,000 before depreciation.
- (f) The partners had drawn each ₹ 1,000 p.m. as drawings.
- (g) The value of other assets and liabilities as on 31st March, 2013 were as under:

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

- (h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Q's loan. The loan alongwith interest would be repaid within 12 months.
- (i) Investments are held from inception of the firm and interest is received @ 10% p.a.
- (j) The partners applied for conversion of the firm into a Private Limited Company. Certificate was received on 1st April, 2013. They decided to convert Capital A/cs of the partners into share capital in the ratio of 2: 1:1 on the basis of total Capital as on 31st March, 2013. If necessary, partners have to subscribe to fresh capital or withdraw.
- Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2013 and the Balance Sheet of the Company on 1st April, 2013.

(May 2013, 16 Marks)

Question 57

Avi and Bishnu are partners of Abhay & Co. sharing profit and losses in the ratio 3:1 and Bishnu and Joe are partners of Bijoy & Co. sharing profit and losses in the ratio 2:1. On 31st March, 2013, they decided to amalgamate and form a new firm M/s Abeejay & Co., wherein Avi, Bishnu and Joe would be partners sharing profit and losses in the ratio 3:2:1. The Balance Sheets of the two firms on 31st March, 2013 were as under:

Liabilities	Abhay & Co.	Bijoy & Co.	Assets	Abhay & Co.	Bijoy & Co.
	₹	₹		₹	₹
Capitals :			Building	3,50,000	2,80,000
Avi	5,31,000		Plant & Machinery	2,00,000	1,50,000
Bishnu	2,00,000	3,97,000	Vehicles	—	90,000
Joe		2,00,000	Furniture	—	10,000

Liabilities	Abhay & Co.	Bijoy & Co.	Assets	Abhay & Co.	Bijoy & Co.
	₹	₹		₹	₹
Reserves	12,000	9,000	Office Equipments	38,000	45,000
Sundry Creditors	1,20,000	89,000	Stock in trade	65,000	70,000
Bank O/D	90,000	—	Sundry Debtors	1,00,000	90,000
Due to R & Co.	—	1,00,000	Bank balances	80,000	60,000
			Cash in hand	20,000	—
			Due from R & Co.	1,00,000	—
	9,53,000	7,95,000		9,53,000	7,95,000

The amalgamated firm M/s Abeejay & Co took over the business on the following terms:

- Goodwill of Abhay & Co. was worth ₹ 42,000 and that of Bijoy & Co. ₹ 30,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
- The following assets were valued as below:

	Abhay & Co.	Bijoy & Co.
	₹	₹
Building	4,00,000	3,00,000
Plant & Machinery	2,50,000	2,00,000
Vehicles	—	98,000
Furniture	—	11,000
Office Equipments	39,000	50,000
Stock in trade	70,000	80,000

- Provision for doubtful debt was carried forward at ₹ 4,000 in respect of Debtors of Abhay & Co and ₹ 3,000 in respect of Debtors of Bijoy & Co.
- Partners of new firm brought necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to:

- Prepare the Balance Sheet of the new firm as on 31st March, 2013.
- Prepare Capital Accounts of the partners in the books of old firms.

(November 2013, 16 Marks)

Question 58

X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings.

X died on 31.3.2013 and on that date, the partners' balance were as under:

Capital Account: X – ₹ 60,000, Y – ₹ 40,000, Z – ₹ 20,000.

Current Account: X – ₹ 40,000 (Cr.), Y – ₹ 30,000 (Cr.), Z – ₹ 10,000 (Dr.)

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum installment of ₹ 30,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @ 6% p.a. was to be credited half yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 60,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 40,000 matured on 1.4.2014, realizing ₹52,000; payments of ₹ 30,000 each were made to X's Executors on 1.4.2013, 30.9.2013 and 31.3.2014. Y and Z continued trading on the same terms as previously and the net profit for the year ending 31.3.2014 (before charging the interest due to X's estate) amounted to ₹ 52,000. During that period, the partners' drawings were Y- ₹ 15,000; and Z- ₹ 8,000.

On 1.4.2014, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.2014.

The balance due to X's estate, including interest, was paid on 30.6.2014 and on that day, Y and Z received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.4.2013 to 30.6.2014. Show also the account of the executors of X.

(May, 2015, 16 Marks)

Question 59

Under what circumstances, an LLP can be wound up by the Tribunal.

(May, 2015, 4 Marks)

Question 60

Yash, Tanish and Ruchika were partners sharing profit & Loss in ratio of 3:2:1. Balance sheet of the firm is as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
Fixed Capital:		Fixed Assets	45,000
- Yash	50,000	Investments	15,000
- Tanish	20,000	Current Assets:	
- Ruchika	10,000	- Stock	10,000
Current Accounts:		- Debtors	27,500
- Yash	6,000	- Cash & Bank	12,500
- Ruchika	4,000	Current Account:	
Unsecured Loans	15,000	- Tanish	10,000
Current Liabilities	15,000		
	1,20,000		1,20,000

On 1st April, 2014 all the partners agreed to form a new company YTR Pvt. Ltd., which shall take over the firm as going concern including goodwill, but excluding cash and bank balances. The following matters were also agreed upon:

- Goodwill shall be valued at 3 years' purchase of super profits.
- Actual profit for the purpose of goodwill valuation will be ₹ 20,000.

- (iii) The normal rate of return will be 17.50% per annum of Fixed Capital.
- (iv) All other Assets and Liabilities will be taken over a book value
- (v) The purchase consideration will be paid partly in share of ₹ 1 each and partly in cash. Yash and Tanish to acquire interest in new company in the ratio of 3:2 at face value. Ruchika agreed to retire after taking her share in cash.
- (vi) Realisation expenses amount to ₹ 5,000.

Prepare Realisation Account, Cash and Bank Account, YTR Private Limited Account and Capital Accounts of the partners.

(November 2015, 16 Marks)

Question 61

P and Q partners of P & Co., sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2:1. On 31st March, 2015, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under:

Liabilities	P & Co. ₹	R & Co. ₹	Assets	P & Co. ₹	R & Co. ₹
Capitals:			Fixed assets:		
P	2,50,000	—	Building	50,000	60,000
Q	1,80,000	2,20,000	Plant & Machinery	1,60,000	1,70,000
R		1,20,000	Office equipment	50,000	46,000
Reserves	60,000	1,50,000	Current assets:		
Sundry Creditors	1,30,000	1,36,000	Stock in trade	1,20,000	1,40,000
Due to P & Co.	—	1,00,000	Sundry Debtors	1,60,000	2,00,000
Bank Overdraft	80,000	—	Bank balance	40,000	1,00,000
			Cash in hand	20,000	10,000
			Due to R & Co.	1,00,000	-
	7,00,000	7,26,000		7,00,000	7,26,000

The amalgamated firm took over the business on the following terms:

- (a) Building of P & Co. was valued at ₹ 1,50,000.
- (b) Plant & Machinery of P & Co. was valued at ₹ 2,75,000 and that to R & Co. at ₹ 2,50,000.
- (c) All stock in trade is to be appreciated by 20%.
- (d) Goodwill of P & Co. was valued at ₹ 1,20,000 and of R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.

- (e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.
- (f) Provisions for doubtful debts has to be carried forward at ₹ 15,000 in respect of debtors of P & Co. and ₹ 30,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.
(May 2016, 16 Marks)

Question 62

What are the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP)?
(May 2016, 4 Marks)

Question 63

X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant & Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realization of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realized other than cash at bank and 10% of the amount distributed to the partners.

Assets were realized piecemeal as under:

	₹
First Instalment	74,600
Second Instalment	69,301
Third Instalment	40,000
Last Instalment	28,000

Dissolution expenses were provided for estimated amount of ₹ 12,000

The creditors were settled finally for ₹ 63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".
(November, 2016, 16 Marks)

Question 64

Write short notes on Designated Partner in a Limited Liability Partnership and what are their liabilities.
(November, 2016, 4 Marks)

Question 65

Ali and Beta were carrying on business, sharing profits and losses equally. The firm's balance sheet as at 31-12-2015 was:

Liabilities	₹	Assets	₹
Sundry Creditors	1,44,000	Stock	1,44,000
Bank Overdraft	84,000	Machinery	3,60,000
Capital A/c.		Debtors	1,68,000
Ali 3,36,000		Joint Life Policy	21,600
Beta 3,12,000	6,48,000	Leasehold Premises	81,600
		Profit & Loss A/c.	62,400
		Drawing A/c.	
		Ali 24,000	
		Beta 14,400	38,400
	8,76,000		8,76,000

The business was carried on till 30-6-2016. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30-6-2016, in equal proportion. The profit was calculated after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half year, sundry creditors were reduced by ₹24,000 and bank overdraft by ₹36,000.

On 30-6-2016, stock was valued at ₹1,80,000 and debtors at ₹1,44,000. The Joint Life Policy had been surrendered for ₹21,600 before 30-6-2016 and other items remained the same as at 31-12-2015.

On 30-6-2016, the firm sold the business to a limited company. The value of goodwill was fixed at ₹2,40,000 and the rest of the assets were valued on the basis of the balance sheet as at 30-6-2016. The company paid the purchase consideration in equity shares of ₹10 each. You are required to prepare:

- Balance sheet of the firm as at 30-6-2016;
- Realisation Account; and
- Partners' Capital Account showing the final settlement between them.

(Group I-May 2017, 16 Marks)

Question 66

State the circumstances when LLP can be wound up by the Tribunal.

(Group I-May 2017, 4 Marks)

ESOP

Question 1

What is employee stock option plan? Explain the importance of such plans in the modern time.

(Practice Manual)

Question 2

X Co. Ltd. has its share capital divided into equity shares of ₹ 10 each. On 1-4-2012 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, 2013 and 31st March, 2013. 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 up to 31st March, 2013.

(Practice Manual)

Question 3

S Ltd. grants 1,000 options to its employees on 1.4.2010 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 31.7.2013. Journalize, if the face value of equity share is ₹ 10 per share.

(Practice Manual)

Question 4

A company has its share capital divided into shares of ₹ 10 each. On 1-4-2012, it granted 5,000 employees stock option at ₹ 50, when the market price was ₹ 140. The options were to be exercised between 1-3-2013 to 31-03-2013. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-2013, with regard to employees' stock option.

(Practice Manual)

Question 5

On 1st April, 2012, 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, 2013, 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.

(Practice Manual)

Question 6

Arihant Limited has its share capital divided into equity shares of ₹ 10 each. On 1-10-2012, 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 10th December, 2012 and 31st March, 2013. 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, 2013.

(Practice Manual)

Question 7

A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2012 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 15th March, 2013 and 31st March, 2013. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year.

Show Journal Entries.

(Study Material)

Question 8

ABC Ltd. grants 1,000 employees stock options on 1.4.2010 at ₹ 40, when the market price is ₹ 160. The vesting period is $2\frac{1}{2}$ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2012. 600 options are exercised on 30.6.2013. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

(Study Material)

Question 9

Explain "Employee's stock option plan".

(November 2009, 2 Marks)

Question 10

A Company has its share capital divided into shares of ₹10 each. On 1st April 2010, it granted 20,000 employees' stock options at ₹40, when the market price was ₹130. The options were to be exercised between 1st January 2011 to 15th March 2011. The employees exercised their options for 18,000 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries with regard to employees' stock options.

(May 2011, 5 Marks)

Question 11

A company has its share capital divided into shares of ₹10 each. On 1-4-2010, it granted 5,000 employees stock option at ₹50, when the market price was ₹140. The options were to be exercised between 1-12-2010 to 28-2-2011. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-2011, with regard to employees' stock option.

(November 2011, 4 Marks)

Question 12

On 1st April 2012, a company offered 100 shares to each of its 400 employees at ₹25 per share. The employees are given a month to accept the shares. The shares issued under the plan shall be subject to lock-in to transfer for three years from the grant date i.e. 30th April, 2012. The market price of shares of the company on the grant date is ₹30 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹28 per shares.

Upto 30th April, 2012, 50% of employees accepted the offer and paid ₹25 per share purchased. Nominal value of each share is ₹10. Record the issue of shares in the books of the company under the aforesaid plan.

(May 2012, 4 Marks)

Question 13

Arihant Limited has its share capital divided into equity shares of ₹ 10 each. On 1-10-2012, 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 10th December, 2012 and 31st March, 2013. 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, 2013.

(May 2012, 4 Marks)

Question 14

X Ltd. granted 500 stock options to its employees on 1.4.2011 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2014. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share.

(May, 2014, 8 Marks)

Question 15

P Ltd. granted option for 8000 equity shares on 1st October, 2010 at ₹80 when the market price was ₹ 170. The vesting period is 4.5 year. 4000 unvested options lapsed on 1st December, 2012. 3000 options are exercised on 30th September, 2014 and 1000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

(November 2015, 8 Marks)

Buy-Back of Shares

Question 1

What are the conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares as per Companies Act, 2013. Explain in brief.

(Practice Manual)

Question 2

KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2013,

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital (fully paid up shares of ₹ 10 each)	1,200	Machinery	1,800
Securities premium	175	Furniture	226
General reserve	265	Investment	74
Capital redemption reserve	200	Inventory	600
Profit & loss A/c	170	Trade receivables	260
12% Debentures	750	Cash at bank	740
Trade payables	745		
Other current liabilities	195		
	<u>3,700</u>		<u>3,700</u>

On 1st April, 2013, the company announced the buy back of 25% of its equity shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 75 lakhs.

On 5th April, 2013, the company achieved the target of buy back. On 30th April, 2013 the company issued one fully paid up equity share of ₹ 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

- (1) Pass necessary journal entries for the above transactions.
- (2) Prepare Balance Sheet of KG Limited after bonus issue of the shares

(Practice Manual)

Question 3

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

Assets	₹	Assets	₹
Equity Shares of ₹ 10		Fixed Assets	46,50,000
Each fully paid	12,50,000	Current Assets	30,00,000
Revenue reserve	15,00,000		
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	<u>16,50,000</u>		
Total	<u>76,50,000</u>	Total	<u>76,50,000</u>

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.

(Practice Manual)

Question 4

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2013:

	₹ in '000	₹ in '000
Equity & Liabilities		
Share Capital:		
Authorized Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of ₹ 10 each fully paid up	3,000	
20,000 9% Preference Shares of 100 each (issued two months back for the purpose of buy back)	2,000	5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities - 10% Debentures		400
Current liabilities and provisions		40
		<u>11,750</u>

	₹ in '000	₹ in '000
Assets		
Fixed Assets: Cost	3,000	
Less: Provision for depreciation	250	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

- (1) The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25 lakhs.
- (2) The company redeemed the preference shares at a premium of 10% on 1st April, 2013.
- (3) Included in its investments were 'Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April, 2013.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2013.

(Practice Manual)

Question 5

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2011:

	Particulars	(₹ in crores)	
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	330
(2)	Reserves and Surplus		
	General Reserve	240	-
	Securities Premium Account	90	-
	Profit & Loss Account	90	-
	Infrastructure Development Reserve	180	600
(3)	Loan Funds		1,800

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2011 a proposal to buy back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% over market.

You are also informed that the Infrastructure Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy back is completed by 09.12.2011, show the accounting entries in the company's books in each situation.

(Study Material)

Question 6

Anu Ltd. (a non-listed company) furnishes you with the following summarized balance sheet as at 31st March, 2012:

	(₹ 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	<u>25</u>	100
Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Revenue reserves	<u>260</u>	<u>300</u>
		<u>400</u>
Application of Funds		
Fixed assets: cost	100	
Less: Provision for depreciation	<u>(100)</u>	Nil
Non-current investments at cost (Market value ₹ 400 Cr.)		100
Current assets	340	
Less: Current liabilities (Trade payables)	<u>(40)</u>	<u>300</u>
		<u>400</u>

The company redeemed preference shares on 1st April, 2012. It also bought back 20 lakhs equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

- Pass journal entries to record the above.
- Prepare balance sheet as at 1.4.2012.

(Study Material)

Question 7

Extra Ltd. (a non-listed company) furnishes you with the following summarized Balance Sheet as on 31st March, 2012:

(₹ in lakhs)

Liabilities	Amount	Assets	Amount
Equity shares of ₹ 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference shares of ₹ 100 each fully paid	20	Investments at cost	120
Capital reserves	8	Current assets	142
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	<u>312</u>		<u>312</u>

- (i) The company redeemed the preference shares at a premium of 10% on 1st April, 2012.
- (ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share.
The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.
- (iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2012.
- (iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30 (This was included under current liabilities). On 1.04.2012 employees exercised their options for 50,000 shares.
- (v) Pass the journal entries to record the above.
- (vi) Prepare Balance Sheet as at 01.04.2012.

(Study Material)

Question 8

Dee Limited (a non-listed company) furnishes the following summarized Balance Sheet as at 31st March, 2012:

	₹ '000	₹ '000
Liabilities		
Share capital:		
Authorised capital		<u>30,00</u>
Issued and subscribed capital:		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹ 100 each	<u>2,00</u>	
(Issued two months back for the purpose of buy back)		27,00
Reserves and surplus:		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	<u>35,00</u>	97,00
Current liabilities and provisions		14,00
		<u>1,38,00</u>
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		<u>1,38,00</u>

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

(Study Material)

Question 9

Dee Limited furnishes the following Balance Sheet as at 31st March, 2008:

	₹'000	₹'000
Liabilities		
Share capital:		30,00
Authorised capital		
Issued and subscribed capital:		
2,50,000 Equity shares of ₹10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹100 each		
(Issued two months back for the purpose of buy back)	<u>2,00</u>	27,00
Reserves and surplus:		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	<u>35,00</u>	97,00
		14,00
Current liabilities:		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ ₹50 per share. For this purpose, it sold all of its investment for ₹22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

(November, 2009, 8 Marks)

Question 10

Extra Ltd. furnishes you with the following Balance Sheet as on 31st March, 2010:

(₹in lakhs)

Liabilities	Amount	Assets	Amount
Equity shares of ₹10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference		Investments at cost	120
shares of ₹100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	<u>312</u>		<u>312</u>

- (i) The company redeemed the preference shares at a premium of 10% on 1st April, 2010.
- (ii) It also bought back 3 lakhs equity shares of ₹10 each at ₹30 per share. The payment for the above were made out of huge bank balances, which appeared as a part of the current assets.
- (iii) Included in its investment were "investments in own debentures" costing ₹2 lakhs (face value ₹2.20 lakhs). These debentures were cancelled on 1st April, 2010.
- (iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹20 when the market price was ₹30. (This was included under current liabilities). On 1.04.2010 employees exercised their options for 50,000 shares.
- (v) Pass the journal entries to record the above.
- (vi) Prepare Balance Sheet as at 01.04.2010.

(November, 2010, 16 Marks)

Question 11

Following is the Balance Sheet of M/s competent Limited as on 31st March, 2012:

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		
<i>Secured Loans:</i>			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current Liabilities	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, 2012 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, 1956. If yes, pass necessary journal entries towards buy back of shares and prepare e Balance Sheet after buy back of shares.

(May 2012, 8 Marks)

Question 12

M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2012:

	₹ in '000	₹ in '000
Equity & Liabilities		
Share Capital		
Authorised Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of ₹10 each fully paid up		

	₹ in '000	₹ in '000
20,000 9% Preference Shares of ₹100 each (issued two months back for the purpose of buy back)	3,000 2,000	5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities – 10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	
Less Provisions for depreciation	250	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

(1) The company passed a resolution to buy back 20% of its equity capital @ ₹15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹25 lakhs.

(2) The company redeemed the preference shares at a premium of 10% on 1st April, 2012.

(3) Included in its investments were 'Investments in own debentures' costing ₹3 lakhs (face value ₹3.30 lakhs). These debentures were cancelled on 1st April, 2012.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 1.4.2012.

(November 2012, 12 Marks)

Question 13

Following is the summarized Balance Sheet of M/s Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (₹)
Equity shares of ₹ 10 each fully paid up	12,50,000
Bonus shares	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	1,00,000
Revaluation Reserve	1,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000

Assets	Amount (₹)
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been 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 shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by the 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.

(May 2016, 12 Marks)

Question 14

The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2016:

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
1. <u>Shareholders Fund</u>		1. <u>Non-Current Assets</u>	
(a) Share Capital:		a) Fixed (Tangible) Assets:	
1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000	Land & Building	21,50,000
(b) Reserve & Surplus:		Plant & Machinery	15,00,000
Securities Premium	3,00,000	(b) Non-Current Investments	2,00,000
General Reserve	2,50,000	2. <u>Current Assets</u>	
Profit & Loss		(a) Trade Receivables	5,50,000
Account Surplus	1,50,000	(b) Inventories	1,80,000
		(c) Cash and Cash Equivalents	40,000
2. <u>Non-Current Liabilities</u>			
Long Term Borrowings:			
10% Debentures (Secured by floating charge on all assets)	20,00,000		
Unsecured Loans	8,00,000		
3. <u>Current Liability & Provisions</u>			
Trade Payables	1,20,000		
Total	46,20,000	Total	46,20,000

On 21st April, 2016 the Company announced the buy back of 25,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2016, the company achieved the target of buy back.

On 1st May, 2016 the company issued one fully paid up share of ₹ 10 each by way of bonus for every five equity shares held by the equity shareholders.

You are requested to pass necessary Journal Entries for the above transactions.

All necessary workings should form part of your answer.

(November, 2016, 6 Marks)

Schedule III

Question 1

Sagar Ltd. has issued convertible bonds for ₹65 crores which are due to mature on 30th September, 2018.

While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bonds as per the requirements of Schedule-III to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

(November 2018) (5 marks)

Answer: Schedule III to the companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Sagar Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Sagar Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

Question 2

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP August 2018) (5 Marks)

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

Question 3

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP October 2018) (5 Marks)

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

Question 4

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP-March 2019) (5 Marks)

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

Question 5

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(RTP November 2019)

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

Question 6

- (a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹40 Lakh.

(RTP November 2019)

Answer:

- (a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
M	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
N	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
O	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
X	=	$\frac{1}{3} \times \frac{40}{100}$	=	$\frac{2}{15}$
Y	=	$\frac{1}{3} \times \frac{30}{100}$	=	$\frac{1}{10}$
Z	=	$\frac{1}{3} \times \frac{20}{100}$	=	$\frac{1}{15}$
K	=	$\frac{1}{3} \times \frac{10}{100}$	=	$\frac{1}{30}$

Question 7

L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹80 Lakh and Preference share capital is ₹40 Lakh.

(RTP May 2018)

Answer: L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹80 Lakhs and Preference share capital is ₹40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
M	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
N	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
O	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
X	=	$\frac{1}{3} \times \frac{40}{100}$	=	$\frac{2}{15}$
Y	=	$\frac{1}{3} \times \frac{30}{100}$	=	$\frac{1}{10}$
Z	=	$\frac{1}{3} \times \frac{20}{100}$	=	$\frac{1}{15}$
K	=	$\frac{1}{3} \times \frac{10}{100}$	=	$\frac{1}{30}$

Question 8

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

(RTP May, 2019)

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

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

- (a) The articles of association of the company authorizes the issue of shares with differential rights;
- (b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- (c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
- (d) The company having consistent track record of distributable profits for the last three years;
- (e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- (g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;
- (h) The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Volume 2: Question Bank

Chapter

1

Financial Statements of Banking Companies

Income Recognition

Question 1

Omega Bank Statement of interest on advances in respect of Performing assets and Non-Performing Assets are as follows:—

(in lakhs)

	Performing Assets		Non-Performing Assets	
	Interest earned	Interest received	Interest earned	Interest received
Cash credits and overdrafts	1800	1060	450	70
Term Loan	480	320	300	40
Bills purchased and discounted	700	550	350	36

Find out the income to be recognized for the year ended 31st March, 20X1.

Answer

Interest on performing assets should be recognised on accrual basis, but interest on NPA should be recognised on cash basis.

	₹ in lakhs
Interest on cash credits and overdraft:	(1800+70) = 1,870
Interest on Term Loan	(480+40) = 520
Income from bills purchased and discounted:	(700+36) = 736
	<u>3,126</u>

Rebate on Bills

Question 2

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

- (i) During the financial year ending 31st March, 2019 Anmol Bank Ltd. discounted bills of exchange of ₹ 5,000 crores charging interest @ 14% and the average period of discount being 146 days.
- (ii) Bills of exchange of ₹ 500 crores were due for realization from the acceptors/customers after 31st March, 2019. The average period of outstanding after 31st March, 2019 being 73 days. These bills of exchange of ₹ 500 crores were discounted charging interest @ 14% p.a.

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

(May 2020)

Answer

In the books of Anmol bank Ltd.

Journal Entries

₹ in crores

Particulars	Debit	Credit
Rebate on bills discounted A/c Dr.	40	
To Discount on bills A/c		40
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')		
Bills purchased and discounted A/c Dr.	5,000	
To Discount on bills A/c		280
To Clients A/c		4,720
(Being the discounting of bills of exchange during the year)		

Particulars	Debit	Credit
Discount on bills A/c Dr. To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)	14	14
Discount on bills A/c Dr. To Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)	306	306

Working Notes:

- Discount received on the bills discounted during the year
 $\text{₹ } 5,000 \text{ crores} \times 14/100 \times 146/365 = \text{₹ } 280 \text{ crores}$
- Calculation of rebate on bill discounted
 $\text{₹ } 500 \text{ crores} \times 14/100 \times 73/365 = \text{₹ } 14 \text{ crores}$
- Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c.

Discount on bills A/c

₹ in crores

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

Question 3

As on 31st March 20106, Strong Bank Ltd. has a balance of ₹27 crores in "rebate on bills discounted" account. The bank provides you the following further information:

- During the financial year ending 31st March 2017, Strong Bank Ltd. discounted bills of exchange of ₹4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.
- Bills of exchange of ₹600 crores were due for realization from the acceptors/customers after 31st March 2017, the average period outstanding after 31st March 2017, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(MTP March 2018) (6 Marks)

Answer:**In the books of Strong Bank Ltd.****Journal Entries**

Particulars		Debit (₹)	Credit (₹)
Rebate on bills discounted A/c	Dr.	27	
To Discount on bills A/c			27
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')			
Bills purchased and discounted A/c	Dr.	4,000	
To Discount on bills A/c			240
To Clients A/c			3,760
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	18	
To Rebate on bills discounted A/c			18
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			
Discount on bills A/c	Dr.	249	
To Profit and Loss A/c			249
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)			

Working Notes:

- Discount received on the bills discounted during the year
 $\text{₹}4,000 \text{ crores} \times 15/100 \times 146/365 = \text{₹}240 \text{ crores}$
- Calculation of rebate on bill discounted
 $\text{₹}600 \text{ crores} \times 16/100 \times 73/365 = \text{₹}18 \text{ crores}$
 (It is assumed that discounting rate of 15% is used for the bill of ₹600 crores also)
- Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c

Discount on bills A/c**₹ in crores**

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

Question 4

Forward Bank Ltd furnishes the following information as on 31st March, 2018.

	Amount in ₹
Bills Discounted	82,23,000
Rebate on bills discounted as on 1st April, 2017	1,32,960
Discount received	6,33,990

Details of bills discounted is as given below:

Value of Bills (₹)	Due Date	Rate of Discount
10,95,000	15th June, 2018	14%
30,00,000	25th June, 2018	12%
16,92,000	5th July, 2018	16%
24,36,000	15th July, 2018	16%

- Calculate the rebate on bills discounted as on 31st March, 2018.
- Pass necessary Journal Entries.

(November 2018) (5 marks)

Answer

In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

Value (₹)	Due Date	Days after 31-03-2018	Discount %	Discount Amount ₹
10,95,000	15-06-2018	$(30+31+15) = 76$	14%	31,920
30,00,000	25-06-2018	$(30+31+25) = 86$	12%	84,822
16,92,000	05-07-2018	$(30+31+30+5) = 96$	16%	71,203
24,36,000	15-07-2018	$(30+31+30+15) = 106$	16%	1,13,191*
		Rebate on bills discounted as on 31.3.2018		3,01,136

The journal entries will be as follows

		Dr. ₹	Cr ₹
Rebate on Bills Discounted A/c	Dr.	1,32,960	
To Discount on Bills A/c			1,32,960
(Being the transfer of Rebate on Bills Discounted on 1.4.2017 to Discount on Bills Account)			
Discount on Bills A/c	Dr.	3,01,136	
To Rebate on Bills Discounted A/c			3,01,136
(Being the transfer of rebate on bills discounted required on 1.4.2018 from discount on Bills Account)			

	Dr. ₹	Cr ₹
Discount on Bills A/c To Profit and Loss A/c (Being the amount of discount on Bills transferred to Profit and Loss Account)	Dr. 4,65,814	4,65,814

Working Note:

The amount of discount to be credited to the Profit and Loss Account will be:

Transfer from Rebate on bills discount as on 1.4.17	1,32,960
Add: Discount received during the year ended 31-3-2018	6,33,990
	<u>7,66,950</u>
Less: Rebate on bills discounted as on 31.3.2018	(3,01,136)
	<u>4,65,814</u>

Question 5

The following facts have been taken out from the records of City Bank Ltd. as on 31st March, 2017:

	₹	₹
Rebate on bill discounted (not due on March 31st, 2016)		91,600
Discount received		4,05,000
Bill discounted	24,50,000	

An analysis of the bills discounted is as follows:

	Amount	Due date	Rate of discount
	₹	2017	
(i)	7,50,000	April 8	12%
(ii)	3,00,000	May 5	14%
(iii)	4,40,000	June 12	14%
(iv)	9,60,000	July 15	15%

You are required to:—

- Calculate Rebate on Bill Discounted as on 31st March, 2017.
- The amount of discount to be credited to the profit and loss account.

(MTP October 2018) (6 Marks)

Answer:**(i) Calculation of Rebate on bills discounted**

S.No.	Amount (₹)	Due date 2017	Unexpired portion	Rate of discount	Rebate on bill discounted ₹
(i)	7,50,000	April 8	8 days	12%	1,973
(ii)	3,00,000	May 5	35 days	14%	4,027
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	<u>41,819</u>
					<u>60,139</u>

(ii) Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discount as on 31st March, 2016	91,600
Add: Discount received during the year ended 31st March, 2017	<u>4,05,000</u>
	4,96,600
Less: Rebate on bills discounted as on 31st March, 2017	<u>60,139</u>
Discount credited to the Profit and Loss Account	<u>4,36,461</u>

Question 6

As on 31st March 2016, Strong Bank Ltd. has a balance of ₹27 crores in "rebate on bills discounted" account. The bank provides you the following further information:

- (1) During the financial year ending 31st March 2017, Strong Bank Ltd. discounted bills of exchange of ₹4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.
- (2) Bills of exchange of ₹600 crores were due for realization from the acceptors/customers after 31st March 2017, the average period outstanding after 31st March 2017, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(MTP-March 2019) (6 Marks)

Answer:

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

Particulars		Debit (₹)	Credit (₹)
Rebate on bills discounted A/c To Discount on bills A/c (Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')	Dr.	27	27
Bills purchased and discounted A/c To Discount on bills A/c To Clients A/c (Being the discounting of bills of exchange during the year)	Dr.	4,000	240 3,760
Discount on bills A/c To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)	Dr.	18	18
Discount on bills A/c To Profit and Loss A/c (Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)	Dr.	249	249

Working Notes:

1. Discount received on the bills discounted during the year

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

2. Calculation of rebate on bill discounted

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

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

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

Discount on bills A/c**₹ in crores**

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

Question 7

The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2019:

Rebate on bills discounted as on 1-4- 2018	1,36,518 (Cr.)
Discount received	3,40,312 (Cr.)
Analysis of the bills discounted reveals as follows:	

Amount (₹)	Due date
5,60,000	June 1, 2019
17,44,000	June 8, 2019
11,28,000	June 21, 2019
16,24,000	July 1, 2019
12,00,000	July 5, 2019

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2019 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

(RTP November 2019)

Answer:

The amount of rebate on bills discounted as on 31st March, 2019 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹5,60,000 for 62 days @ 10%	9,512
Discount on ₹17,44,000 for 69 days @ 10%	32,969
Discount on ₹11,28,000 for 82 days @ 10%	25,341
Discount on ₹16,24,000 for 92 days @ 10%	40,934
Discount on ₹12,00,000 for 96 days @ 10%	<u>31,562</u>
Total	<u>1,40,318</u>

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 31.03. 2018	1,36,518
Add: Discount received during the year	<u>3,40,312</u>
	4,76,830
Less: Rebate on bills discounted as on 31.03. 2019 (as above)	<u>(1,40,318)</u>
	<u>3,36,512</u>

Journal Entries

	₹	₹
Rebate on bills discounted A/c Dr.	1,36,518	
To Discount on bills A/c		1,36,518
(Transfer of opening unexpired discount on 31.03. 2018)		
Discount on bills A/c Dr.	1,40,318	
To Rebate on bills discounted A/c		1,40,318
(Unexpired discount on 31.03. 2019 taken into account)		
Discount on Bills A/c Dr.	3,36,512	
To P & L A/c		3,36,512
(Discount earned in the year, transferred to P&L A/c)		

Capital Adequacy Ratio

Question 8

Astha Bank has the following Capital Funds and Assets as at 31st March, 2018:

	₹ in crores
Capital Funds:	
Equity Share Capital	600.00
Statutory Reserve	470.00
Profit and Loss Account (Dr. Balance)	30.00
Capital Reserve (out of which ₹25 crores were due to revaluation of assets and balance due to sale of assets)	130.00
Assets:	
Balance with other banks	15.00
Cash balance with RBI	35.50
Claim on Banks	52.50
Other Investments	70.00
Loans and Advances:	
(i) Guaranteed by government	22.50
(ii) Guaranteed by DICGC/ECGC	110.00
(iii) Other	9,365.00
Premises, furniture and fixtures	92.50
Leased assets	40.00
Off-Balance Sheet items:	
(i) Acceptances, endorsements and letters of credit	1,100.00
(ii) Guarantees and other obligations	6,200.00

You are required to:

- Segregate the capital funds into Tier I and Tier II capitals.
- Find out the risk-adjusted assets and risk weighted assets ratio.

(May 2018) (10 Marks)

Answer:

(i) Capital Funds—

Tier I:	₹ in crore
Equity Share Capital	600
Statutory Reserve	470
Capital Reserve (arising out of sale of assets)	105
Less: Profits Loss (Dr. bal.)	(30)
	<u>1,145</u>

Capital Funds - Tier II:

Capital Reserve (arising out of revaluation of assets)

25

Less: Discount to the extent of 55%

(13.75)

11.25

(ii) Risk Adjusted Assets

Funded Risk Assets	₹ in crore	Percentage weight	Amount ₹ in crore
Cash Balance with RBI	35.50	0	—
Balances with other Banks	15	20	3
Claims on banks	52.50	20	10.50
Other Investments	70	100	70
Loans and Advances:			
(i) guaranteed by government	22.50	0	—
(ii) guaranteed by DICGC/ECGC	110	50	55
(iii) Others	9,365	100	9,365
Premises, furniture and fixtures	92.50	100	92.50
Leased Assets	40	100	40
			9,636

Off-Balance Sheet Item	₹ in Crore	Credit Conversion Factor	₹ in Crore
(i) Acceptances, Endorsements and Letters of credit	1,100	100	1,100
(ii) Guarantees and other obligations	6,200	100	6,200
			7,300

Risk Weighted Assets Ratio: $\frac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + off Balance sheet items}} \times 100$

$$= (1,145 + 11.25) / (9,636 + 7,300)$$

$$= (1,156.25 / 16.936) \times 100 = 6.83\% \text{ (rounded off)}$$

Question 9

The following information is furnished by ALFA Bank Ltd.

	₹ in Lakhs
Margins held against letter of credit	200
Recurring accounts deposits	100
Current accounts deposits	375
Demand deposit	125
Unclaimed deposit	75
Gold deposit	235
Demand liabilities portion of saving bank deposit	1325
Time liabilities portion of saving bank deposit	722

Explain CRR and you are required to calculate the amount of Cash Reserve Ratio (CRR) as per the direction of Reserve Bank of India.

(November 2019, New Course, 5 Marks)

Answer

Cash Reserve Ratio (CRR): For smoothly meeting cash payment requirement, banks are required to maintain certain minimum ready cash balances at all times. This is called as Cash Reserve Ratio (CRR).

Cash reserve can be maintained by way of either a cash reserve with itself or as balance in a current account with the Reserve Bank of India or by way of net balance in current accounts or in one or more of the aforesaid ways. Every Scheduled Commercial Bank has to maintain cash reserve ratio (i.e. CRR) as per direction of the RBI. The current Cash Reserve Ratio (CRR) is 4% of their Net Demand and Time Liabilities (NDTL).

Margins held against letters of credit	Demand Liability	200
Recurring Accounts deposits	Time Liability	100
Current deposits	Demand Liability	375
Demand deposits	Demand Liability	125
Unclaimed deposits,	Demand Liability	75
Gold deposits	Time Liability	235
Demand liabilities portion of savings bank deposits	Demand Liability	1325
Time liabilities portion of savings bank deposits	Time Liability	722
	Total	3,157

Cash Reserve Ratio = Net (demand + Time) liabilities X 4/100

CRR= 3,157 x 4/100 = 126.28 Lakhs

Final Accounts – P & L Accounts

Question 10

From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Supreme Bank Limited' for the year ending 31st March, 2018:

Income	₹ in lakhs	Expenditure	₹ in lakhs
Interest and discount	1,835	Interest expended	1,136
Interest accrued on Investments	8	Printing & stationery	18
Commission, exchange and brokerage	12	Repairs maintenance	2
Profit on sale of investments	1	Payment to and provision for employees (salaries, bonus etc.)	80
Rent received	2	Other Operating Expenses	5

Additional Information:

	₹ in lakhs
(i) Rebate on bills discounted to be provided for	3
(ii) Classifications of Advances:	
Standard Assets	4,100
Sub-Standard Assets (fully secured)	380
Doubtful Assets not covered by security	155
Doubtful Assets covered by security	
For 1 year	10
More than 1 year, but less than 2 years	18
More than 2 year, but less than 3 years	35
More than 3 year	22
Loss Assets	
(iii) Make tax provision @ 35% of the profit.	50
(iv) Profit and Loss Account (Cr.) brought forward from the previous year	65

Answer:**Calculation of Provisions and Contingencies****(i) Provision on Non-Performing Assets**

			₹ in lakhs
Particulars	Amount	% of Provision	Provision
Standard Assets	4,100	0.4	16.40
Sub-standard Assets	380	15	57
Doubtful Assets not covered by security	155	100	155
Doubtful Assets covered by security:			
For 1 year	10	25	2.50
More than 1 year, but less than 2 years	18	40	7.20
More than 2 years & but less than 3 years	35	40	14
More than 3 years	22	100	22
Loss Assets	50	100	50
	4,770		324.10

(ii) Calculation of Provision for tax = 35% of [Total Income - Total Expenditure (excluding tax)]

= 35% of [(1,840 + 15) - (1,136 + 105 + 324.10)] = ₹101.47 lakhs

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

= 324.10 + 101.47 = ₹425.57 lakhs

(b) Supreme Bank Limited
Profit and Loss Account for the year ended 31s1 March, 2018

Particulars	Schedule No.	₹ in lakhs
I Income		
Interest Earned	13	1,840
Other Income	14	15
		<u>1,855</u>
II Expenditures		
Interest Expended		1,136
Operating Expenses	16	1,05
Provisions & Contingencies		425.57
		<u>1,666.57</u>
III Profit/Loss		
Net Profit/Loss for the year		188.43
Profit/Loss brought forward		65
		<u>253.43</u>
IV Appropriations		
Transfer to Statutory Reserve @ 25% of 188.43		47.11
Transfer to Other Reserves		-
Balance carried over to Balance Sheet		206.32
		<u>253.43</u>
Schedule 13 - Interest earned		
I Interest & Discount (1,835 - 3)		1,832
II Interest on Investments		8
		<u>1,840</u>
Schedule 14- other income		
Commission, exchange and brokerage		12
Profit on sale of investments		1
Rent received		<u>2</u>
		<u>15</u>
Schedule 16- Operating Expenses		
Printing & stationery		18
Repair & maintenance		2
Payment to and provision for employees (salaries, bonus etc.)		80
Other Operating Expenses		<u>5</u>
		<u>105</u>

Question 11

The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- A customer to whom a sum of ₹16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- There were also other debts for which a provision of ₹2,10,000 was found necessary by the auditors.
- Rebate on bills discounted on 31.3.2016 was ₹19,000 and on 31.3.2017 was ₹25,000.
- Preliminary expenses are to be fully written off during the year.
- Provide ₹9,00,000 for Income-tax.
- Profit and Loss account opening balance was Nil as on 31.3.2016.

You are required to Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

(MTP August 2018) (16 Marks)

Answer

TOP Bank Limited

Profit and Loss Account for the year ended 31st March, 2017

		Schedule	Year ended 31.03.2017
			(₹ in '000s)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	<u>728.00</u>
	Total		<u>6,651.18</u>

		Schedule	Year ended 31.03.2017
			(₹ in '000s)
II.	Expenditure		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		<u>2,070.00</u>
	Total		<u>6,098.38</u>
III.	Profits/Losses		
	Net profit for the year		552.80
	Profit brought forward		<u>nil</u>
			<u>552.80</u>
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		<u>414.60</u>
			<u>552.80</u>

		Year ended 31.3. 2017 (₹ in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	<u>5923.18</u>
		<u>5923.18</u>
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	<u>104</u>
		<u>728</u>
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	<u>3259.92</u>
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	<u>40</u>
		<u>768.46</u>

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	<u>(25.00)</u>
	<u>5,923.18</u>

Question 12

From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2018:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information:

		₹ in lakhs	
		Earned	Collected
(i)	Interest on NPA is as follows:		
	Cash Credit	164	SO
	Term Loans	90	20
	Overdraft	150	50
(ii)	Classification of Non-performing Advances:		
	Standard		60
	Sub-standard-fully secured		22
	Doubtful assets-fully unsecured		40
	Doubtful assets covered fully by security:		
	Less than 1 year		6
	More than 1 year upto 3 years		3
	More than 3 years		2
	Loss Assets		38

- (iii) Provide 35% of the profits towards provision for taxation.
- (iv) Transfer 25% of the profit to Statutory Reserves.

(RTP May, 2019)

Answer:

Wealth Bank Limited
Profit and Loss Account
For the year ended 31st March, 2018

₹ in lakhs

Particulars	Schedule	Year ended 31-3-2018
I Income		
Interest earned	13	766
Other income	14	50
		816
II Expenditure		
Interest expended	15	54
Operating expenses	16	468
Provisions and Contingencies (Refer W.N.)		158.96
		680.96
III Profit/Loss		
Net Profit/(Loss) for the year		135.04
Net Profit/(Loss) brought forward		Nil
		135.04
IV Appropriations:		
Transfer to Statutory reserve (25% of the profits)		33.76
Balance carried to the balance sheet		101.28
Total		135.04

Schedule 13 - Interest Earned

	Year ended 31-3-2018	(₹ in lakhs)
I Interest/discount on advances/bills		
Interest on cash credit (364-84)	280	
Interest on overdraft (150-100)	50	
Interest on term loans (308-70)	238	568
II Income on investments		168
III Interest on Balance with RBI		30

Interest on NPA is recognized on cash basis, hence difference of accrued interest not received have been reduced from the total accrued interest.

Schedule 14 - Other Income

		Year ended 31-3-2018 (₹ in lakhs)
I	Commission, Exchange and Brokerage:	
	Commission on remittances and transfer	15
	Commission on letter of credit	24
	Commission on Government business	55
II	Profit on sale of Land and Building	5
III	Loss on Exchange Transactions	(10)
		50

Schedule 15 - Interest Expended

		Year ended 31-3-2018 (₹ in lakhs)
I	Interest on Deposits	
	Fixed deposits	25
	Recurring deposits	17
	Saving bank deposits	<u>12</u>
		54

Schedule 16 - Operating Expenses

		Year Ended 31-3-2018 (₹ in lakhs)
I	Payment to and provision for employees	
	Salaries, allowances and bonus	248
	Provident Fund Contribution	56
II	Printing and Stationery	28
III	Advertisement and publicity	36
IV	Directors' fees, allowances and expenses	50
V	Auditors' fees and expenses	24
VI	Postage, telegrams, telephones etc.	16
VII	Repairs and maintenance	10
		468

Working Note:

Provisions and contingencies		(₹ in lakhs)
Provision for Advances:		
Standard	60 x 0.40%	0.24
Sub-standard	22 x 15%	3.3
Doubtful not covered by security	40x100%	40
Doubtful covered by security:		
Less than 1 year	6 x 25%	1.5
More than 1 year but less than 3 years	3x40%	1.2
More than 3 years	2x100%	<u>2.0</u>

Provisions and contingencies		(₹ in lakhs)
Loss Assets (38 x 100%)		38
		86.24
Provision for tax 35% of (Total Income-Total Expenditure) 35% of [816-(54 +468 +86.24)] 35% of 207.76		72.72
		158.96

Question 13

The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- A customer to whom a sum of ₹16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- There were also other debts for which a provision of ₹2,10,000 was found necessary by the auditors.
- Rebate on bills discounted on 31.3.2016 was ₹19,000 and on 31.3.2017 was ₹25,000.
- Preliminary expenses are to be fully written off during the year.
- Provide ₹9,00,000 for Income-tax.
- Profit and Loss account opening balance was Nil as on 31.3.2016.

You are required to Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

(MTP-April 2019) (16 Marks)

Answer:

TOP Bank Limited
Profit and Loss Account for the year ended 31st March, 2017

		Schedule	Year ended 31.03.2017 (₹ in '000s)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18
II.	Expenditure		
	Interest expended	15	3259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960+210+900)		2,070.00
	Total		6,098.38
III.	Profits/Losses		
	Net profit for the year		552.80
	Profit brought forward		Nil
			552.80
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

		Year ended 31.3.2017 (₹ in '000s)
	Schedule 13-Interest Earned	
I.	Interest/discount on advances/bills(Refer W.N.)	5923.18
		5923.18
	Schedule 14-Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15-Interest Expended	
I.	Interests paid on deposits	3259.92

		Year ended 31.3.2017 (₹ in '000s)
Schedule 16-Operating Expenses		
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3.2016	19.00
Less: Rebate on bills discounted on 31.3.2017	(25.00)
	5,923.18

Question 14

From the following information, you are required to prepare Profit and Loss Account of Simple Bank for the year ended as on 31st March, 2019:

2017-18 (₹ in '000)	Item	2018-19 (₹ in '000)
71,35	Interest and Discount	1,02,25
5,70	Income from investment	5,60
7,75	Interest on Balances with RBI	8,85
36,10	Commission, Exchange and Brokerage	35,60
60	Profit on sale of investments	6,10
30,60	Interest on Deposits	41,10
6,35	Interest to RBI	7,35
36,35	Payment to and provision for employees	42,75
7,90	Rent, taxes and lighting	8,95
7,35	Printing and Stationery	10,60
5,60	Advertising and publicity	4,90
4,90	Depreciation	4,90
7,40	Director's fees	10,60
5,50	Auditor's fees	5,50
2,50	Law Charges	7,60
2,40	Postage, telegrams and telephones	3,10
2,10	Insurance	2,60
2,85	Repair and maintenance	3,30

Other Information:

- (i) The following items are already adjusted with Interest and Discount (Cr.)

Tax Provision (₹ '000)	7,40
Provision for Doubtful Debts (₹ '000)	4,60
Loss on sale of investments (₹ '000)	60
Rebate on Bills discounted (₹ '000)	2,75

- (ii) Appropriations:

25% of profit is transferred to Statutory Reserves.

5% of profit is transferred to Revenue Reserve

You are required to give necessary Schedules also.

(November 2019, New Course, 10 Marks)

Answer**Simple Bank****Profit and Loss Account for the year ended 31 -3-2019**

		<i>Schedule</i>	<i>(₹ 000's)</i> <i>Year ended</i>	<i>(₹ 000's)</i> <i>Year ended</i>
		<i>No.</i>	<i>31-3-2019</i>	<i>31-3-2018</i>
I.	Income			
	Interest Earned	13	1,29,30	84,80
	Other Income	14	41,10	36,70
	Total		1,70,40	1,21,50
II.	Expenditure			
	Interest Expended	15	48,45	36,95
	Operating Expenses	16	1,04,80	84,85
	Provisions and Contingencies		12,00	
	Total		1,65,25	1,21,80
III.	Profit/Loss			
	Net Profit/Loss for the year		5,15	(30)
	Profit/Loss brought forward		(30)	
	Total		4,85	(30)
IV.	Appropriations			
	Transfer to Statutory Reserve		128.75	
	Transfer to Other Reserve, Proposed Dividend		25.75	
	Balance carried over to Balance Sheet		330.5	
	Total		485.0	

Schedule 13 - Interest Earned

(₹ 000's)

	Year ended 31-3-2019	Year ended 31-3-2018
I. Interest/Discount	1,14,85	71,35
II. Income on Investments	5,60	5,70
III. Interest on Balances with RBI and other inter-bank fund	8,85	7,75
IV. Others	-----	-----
Total	1,29,30	84,80

Schedule 14 - Other Income

(₹ 000's)

	Year ended 31-3-2019	Year ended 31-3-2018
I. Commission, Exchange and Brokerage	35,60	36,10
II. Profit on Sale of Investments	6,10	60
Less: Loss on sale of Investments	(60)	-
Total	41,10	36,70

Schedule 15 - Interest Expended

(₹ 000's)

	Year ended 31-3-2019	Year ended 31-3-2018
I. Interest on Deposits	41,10	30,60
II. Interest on RBI/inter-bank borrowings	7,35	6,35
Total	48,45	36,95

Schedule 16 - Operating Expenses

(₹ 000's)

	Year ended 31-3-2019	Year ended 31-3-2018
I. Payments to and provision for employees	42,75	36,35
II. Rent, taxes and lighting	8,95	7,90
III. Printing and stationery	10,60	7,35
IV. Advertisement and Publicity	4,90	5,60
V. Depreciation on the Bank's Property	4,90	4,90
VI. Director's fees, allowances and expenses	10,60	7,40
VII. Auditor's fees and expenses (including branch auditors)	5,50	5,50

		(₹ 000's)
	Year ended 31-3-2019	Year ended 31-3-2018
VIII. Law charges	7,60	2,50
IX. Postage, telegrams, telephones etc.	3,10	2,40
X. Repairs and maintenance	3,30	2,85
XI. Insurance	2,60	2,10
XII. Other Expenditure	-----	-----
Total	1,04,80	84,85

Final Accounts – Balance Sheet

Question 15

The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- A customer to whom a sum of ₹16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- There were also other debts for which a provision of ₹2,10,000 was found necessary by the auditors.
- Rebate on bills discounted on 31.3.2016 was ₹19,000 and on 31.3.2017 was ₹25,000.
- Preliminary expenses are to be fully written off during the year.
- Provide ₹9,00,000 for Income-tax.
- Profit and Loss account opening balance was Nil as on 31.3.2016.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

(RTP May 2018)

Answer:

TOP Bank Limited

Profit and Loss Account for the year ended 31st March, 2017

		Schedule	Year ended 31.03.2017 (₹ in '000s)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	728.00
	Total		6,651.18
II.	Expenditure		
	Interest expended	15	3,259.92
	Operating expenses	16	768.46
	Provisions and contingencies (960 + 210 + 900)		2,070.00
	Total		6,098.38
III.	Profits/Losses		
	Net profit for the year		552.80
	Profit brought forward		Nil
			552.80
IV.	Appropriations		
	Transfer to statutory reserve (25%)		138.20
	Balance carried over to balance sheet		414.60
			552.80

Year ended 31.3. 2017 (₹ in '000s)		
	Schedule 13 - Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	5923.18
		5923.18
	Schedule 14 - Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	104
		728
	Schedule 15 - Interest Expended	
I.	Interests paid on deposits	3259.92

Year ended 31.3. 2017 (₹ in '000s)		
Schedule 16 - Operating Expenses		
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46
VIII.	Preliminary expenses	40
		768.46

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	(25.00)
	5,923.18

Miscellaneous

Question 16

- (i) The following is an extract of Trial Balance of SM Bank, an overseas bank as on 31st March, 2018.

	Dr. ₹	Cr. ₹
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31 st March, 17		26,592

An analysis of bill discounted is as follows:

Amount in ₹	Due Date	Rate of Discount
1,46,200	4 th May, 2018	15
2,30,400	12 th May, 2018	15
4,35,900	28 th May, 2018	15
4,36,200	18 th June, 2018	16
2,68,100	4 th July, 2018	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2018 and show necessary Journal Entries.

(ii) The following informations are also given for SM Bank:

Assets	₹ in Lakhs
Standard	75,00
Sub-Standard	60,00
Doubtful: for 1 Year (fully secured)	12,00
for 1 to 3 Year (fully secured)	9,00
for more than 3 Years	9,00
Loss Assets	15,00

Additional Information:

- (1) Standard Assets includes ₹15,00 Lakhs Advances to Commercial Real Estate (CRE).
- (2) Out of ₹60,00 Lakhs of Sub-Standard Asset ₹20,00 Lakhs are unsecured. Unsecured includes ₹5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.
- (3) Doubtful Asset for more than 3 Years includes ₹4,00 Lakhs, which is covered by 50% ECGC, value of security of which is ₹150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of SM Bank.

(May 2019) (10 Marks)

Answer:

(i) Statement showing rebate on bills discounted

Value	Due Date	Days after 31.3.2018	Rate of discount	Discount Amount
1,46,200	4.5.18	(30+ 4) = 34	15%	2,043
2,30,400	12.5.18	(30+12) = 42	15%	3,977
4,35,900	28.5.18	(30+28) = 58	15%	10,390
4,36,200	18.6.18	(30+ 31+ 18) = 79	16%	15,106
2,68,100	4.7.18	(30+ 31+30+4) = 95	16%	11,165
15,16,800 Rebate on bills discounted on 31.3.2018				42,681

In the books of SM Bank Ltd.

Journal Entries

1.	Rebate on bills discounted Account	Dr.	26,592	
	To Discount on bills Account			26,592
	[Being opening balance of rebate on bills discounted account transferred to discount on bills account]			
2.	Bills purchased & discounted Account	Dr	15,16,800	
	To Discount on bills Account			1,26,859
	To Clients Account			13,89,941
	(Being bills purchased and discounted during the year)			

3. Discount on bills Account	Dr.	42,681	42,681
To Rebate on bills discounted Account			
[Being provision made on 31st March, 2018]			
4. Discount on bills Account	Dr.	1,10,770	1,10,770
To Profit and loss Account			
[Being transfer of discount on bills, of the year, to profit and loss account]			

Credit to Profit and Loss A/c will be as follows:

$$₹(1,26,859 + 26,592 - 42,681) = ₹1,10,770$$

(ii) Statement showing the amount of provisions on Assets

(₹ in lakhs)			
Assets	Amount	% of provision	Provision
Standard:			
Advances to CRE	15,00	1	15
Others	60,00	.4	24
Sub-standard:			
Secured	40,00	15	6,00
Unsecured- Others	15,00	25	3,75
Unsecured infrastructure	5,00	20	1,00
Doubtful Secured:			
up to one year	12,00	25	3,00
For more than 1 year up to 3 years	9,00	40	3,60
More than 3 years	4,00	W.N.1	2,75
Doubtful unsecured (more than 3 years)	5,00	100	5,00
Loss	15,00	100	<u>15,00</u>
Total Provision Required			40,49

Working Note:

Provision required where assets are ECGC covered

	₹ In Lakhs
Outstanding balance (ECGC Covered)	4,00
Less: Value of security	<u>1,50</u>
Unrealised balance	2,50
Less: ECGC Cover @ 50%	<u>1,25</u>
Net Unsecured Balance	<u>1,25</u>
Provision for unsecured portion @100%	1,25
Provision for secured portion @100%	<u>1,50</u>
Total Provision to be made	2,75

Liquidation

Preferential Creditors

Question 1

XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹5 crores. The company owes following amounts to others:

Dues to workers – ₹1,25,00,000

Unsecured Creditors – ₹60,00,000

You are required to compute, with the reference to the provision of the Companies Act, 2013, the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets available for distribution among creditors is only ₹4,00,00,000/-

(MTP August 2018) (5 Marks)

Answer:

Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a *pari passu* change in favor of the workman to the extent of their portion.

$$\begin{aligned} \text{Workman's Share to Secured Asset} &= \frac{\text{Amount Realized} \times \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}} \\ \text{Workman's Share to Secured Asset} &= \frac{4,00,00,000 \times 1,25,00,000}{1,25,00,000 + 5,00,00,000} \\ &= 4,00,00,000 \times \frac{1}{5} \\ &= 80,00,000 \end{aligned}$$

Amount available to secured creditor is ₹400 Lakhs – 80 Lakhs = 320 Lakhs

Hence, no amount is available for payment of unsecured creditors.

Question 2

XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹5 crores. The company owes following amounts to others:

Dues to workers - ₹1,25,00,000

Taxes Payable to Government - ₹30,00,000

Unsecured Creditors - ₹60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only ₹4,00,00,000/-

(MTP-April 2019) (5 Marks)

Answer:

Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a *pari passu* change in favor of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized} \times \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{4,00,00,000 \times 1,25,00,000}{1,25,00,000 + 5,00,00,000}$$

$$4,00,00,000 \times \frac{1}{5}$$

$$\text{Workman's Share to Secured Assets} = 80,00,000$$

Amount available to secured creditor is ₹400 Lakhs - 80 Lakhs = 320 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

Liquidator Remuneration

Question 3

A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹25,00,000 against which payment was made as follows:

Liquidation expenses	₹25,000
Secured Creditors	₹10,00,000
Preferential Creditors	₹75,000

The amount due to Unsecured Creditors was ₹15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(MTP March 2018) (5 Marks)

Answer:

Calculation of Total Remuneration payable to Liquidator

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

Working Note:

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

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

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

Question 4

A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹45,00,000 against which payment was made as follows:

Liquidation expenses	₹50,000
Secured Creditors	₹15,00,000
Preferential Creditors	₹1,25,000

The amount due to Unsecured Creditors was ₹30,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(MTP April 2018) (5 Marks)

Answer:

Calculation of Total Remuneration payable to Liquidator

	Amount in ₹
2% on Assets realised (45,00,000 x 2%)	90,000
3% on payment made to Preferential creditors 1,25,000 x 3%	3,750
3% on payment made to Unsecured creditors (Refer W.N)	79,551
Total Remuneration payable to Liquidator	1,73,301

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

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

$$= ₹45,00,000 - ₹50,000 - ₹15,00,000 - ₹1,25,000 - ₹90,000 - ₹3,750$$

$$= ₹27,31,250$$

$$\text{Liquidator's remuneration on payment to unsecured creditors} = 3/103 \times ₹27,31,250 = ₹79,551.$$

Question 5

A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential creditors and 3% on the payment made to unsecured creditors. The assets were realized for ₹50,00,000 against which payment was made as follows:

Liquidation	₹50,000
Secured Creditors	₹20,00,000
Preferential Creditors	₹1,50,000

The amount due to Unsecured creditors was ₹30,00,000

You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(MTP October 2018) (5 Marks)

Answer:

Calculation of Total Remuneration payable to Liquidator

	Amount in ₹
2% on Assets realised (50,00,000 × 2%)	1,00,000
3% on payment made to Preferential creditors (1,50,000 × 3%)	4,500
3% on payment made to Unsecured creditors (Refer W.N)	<u>78,510</u>
Total Remuneration payable to Liquidator	<u>1,83,010</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

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

= ₹50,00,000 – ₹50,000 – ₹20,00,000 – ₹1,50,000 – ₹1,00,000 – ₹4,500

= ₹26,95,500

Since cash balance is available for unsecured creditors, Liquidator's remuneration on payment to unsecured creditors = ₹26,95,500 × 3/103 = ₹78,510 (rounded off)

Question 6

A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹25,00,000 against which payment was made as follows:

Liquidation expenses	₹25,000
Secured Creditors	₹10,00,000
Preferential Creditors	₹75,000

The amount due to Unsecured Creditors was ₹15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(MTP-March 2019) (5 Marks)

Answer:

Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realised	25,00,000x2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		39,255
Total Remuneration payable to Liquidator		91,505

Working Note:

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

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

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

Question 7

A liquidator is entitled to receive remuneration at 5%, of the assets realised and 8% of the amount distributed among the unsecured creditors. The assets realised ₹13,75,000. Payment was made from realised amount as follows:

	₹
Liquidation expenses	13,000
Preferential creditors (treated as unsecured creditors)	88,500
Secured creditors	1,00,000

You are required to calculate remuneration payable to the liquidator.

(November 2019, New Course, 5 Marks)

Answer

Calculation of Total Remuneration payable to Liquidator

	Amount in ₹
5% on Assets realised (13,75,000 x 5%)	68,750
8% on payment made to Unsecured creditors (Refer W.N)	7,080
Total Remuneration payable to Liquidator	75,830

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

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

Total amount realized	₹	₹ 13,75,000
Less: Liquidation expenses paid	(13,000)	
Payment to secured creditors	(1,00,000)	
Liquidator's remuneration on assets realized	(68,750)	
		₹ 1,81,750
		₹11,93,250

Sufficient amount is available for preference creditors (treated as unsecured creditors) therefore Liquidator's remuneration on payment to unsecured creditors = $8\% \times ₹ 88,500 = ₹ 7,080$

Note: Since the amount of unsecured creditors (other than preferential creditors) is not given in the question, the above solution is based on the assumption that there are no unsecured creditors (other than preferential creditors who are treated as unsecured creditors).

Question 8

A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹25,00,000 against which payment was made as follows:

Liquidation expenses	₹25,000
Secured Creditors	₹10,00,000
Preferential Creditors	₹75,000

The amount due to Unsecured Creditors was ₹15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

[MTP October, 2019, 5 Marks]

Answer

Calculation of Total Remuneration payable to Liquidator

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

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

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

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

Liquidator's remuneration on payment to unsecured creditors = $3/103 \times ₹13.47750 = ₹39,255$

Question 9

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

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

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

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

(May 2020)

Answer**Calculation of Total Remuneration payable to Liquidator**

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

Working Note:**Liquidator's remuneration on payment to unsecured creditors**

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

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

Liquidator's remuneration

$$= 3/103 \times ₹ 20,21,625 = ₹ 58,882$$

LFSA

Question 10

BT Ltd. went into Voluntary Liquidation on 31st March, 2018, when their detailed Balance Sheet read as follows:

Liabilities	In ₹
<u>Issued & Subscribed Capital</u>	
10,000 12% cumulative preference shares of ₹100 each, fully paid	10,00,000
10,000 Equity Shares of ₹100 each 75 per share paid up	7,50,000
20,000 Equity Shares of ₹100 each 60 per share paid up	12,00,000
Profit & Loss Account	(5,25,000)
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
	43,95,000
<u>Assets</u>	
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000

Liabilities	In ₹
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700
	43,95,000

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of ₹75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under.—

	In ₹
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

- Expenses of liquidation amounted to ₹45,000.

- The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank).

- All payments were made on 30th June, 2018.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2018. Working Notes should form part of the answer.

(May 2019) (10 Marks)

Answer:

BT Limited
Liquidator's Statement of Account

Receipts		₹	Payments		₹
To Assets realized:			By Liquidation expenses		45,000
Bank		75,700	By Preferential creditors		75,000
Other assets:			By Liquidator's Remuneration (W.N.1)		1,29,600
Land & building	24,50,000		By Debenture holders: Debentures	10,00,000	
Plant & Machinery	9,00,000		Interest accrued	1,20,000	
Furniture	2,85,000		Interest 1-4-18 to 30-6-18	<u>30,000</u>	11,50,000
Patents	90,000		By Unsecured creditors		7,36,250
Stock	2,80,000		By Preferential shareholders	10,00,000	
Trade receivables	<u>3,15,000</u>	43,20,000	Preference capital	<u>1,20,000</u>	<u>11,20,000</u>
			Arrear of Dividend		

Receipts		₹	Payments		₹
			By Equity shareholders -		32,55,850
			₹32.995 on 20,000 shares		6,59,900
			₹47.995 on 10,000 shares		<u>4,79,950</u>
		<u>43,95,700</u>			<u>43,95,700</u>

Working Notes:

- (1) Liquidator's remuneration $43,20,000 \times 3/100 = ₹1,29,600$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2018 to 30-6-2018
 $10,00,000 \times 12\% \times 3/12 = ₹30,000$
- (3) Total equity capital - paid up (7,50,000 + 12,00,000) ₹19,50,000
Less: Balance available after payment to unsecured and preference shares
(43,95,700 — 32,55,850) ₹(11,39,850)
₹8,10,150

Loss to be born by 30,000 equity shares	
Loss per share	₹27.005
Hence, Refund for share on ₹60 paid share (60 - 27.005)	₹32.995
Refund for share on ₹75 paid (75 - 27.005)	₹47.995

Question 11

The position of Careless Ltd. on its liquidation is as under:

- 5,000, 10% Preference Shares of ₹100 each ₹60 paid up
- 2,000, Equity shares of ₹75 each, ₹50 paid up
- Unsecured Creditors ₹99,000
- Liquidation Expenses ₹1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to prepare Liquidator's Final Statement of Account if the total assets realized ₹3,80,400.

(RTP May 2018)

Answer:

Liquidator's Final Statement of Account:-

Receipts	₹	Payments	₹
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ ₹10 per share (W.N.)		Unsecured Creditors	99,000
		Preference Shareholders	3,00,000
	<u>4,00,400</u>		<u>4,00,400</u>

Working Notes:

(i) Calculation of Shortage of funds	
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

- (ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹19,600 \times \frac{100}{100 - 2}$$

$$\frac{₹19,600 \times 100}{98} = ₹20,000$$

- (iii) Uncalled Capital @ ₹25 on 2,000 shares = ₹50,000

- (iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. ₹20,000 i.e. ₹10 per Share (20,000/20)

- (v) Commission on Call = ₹20,000 x 2/100 = ₹400

Question 12

The following is the summarized Balance Sheet of Shah Ltd. Co. which is in the hands of the liquidator:

Balance Sheet as at 31.3.2017

Liabilities	₹	Assets	₹
Share Capital:		Fixed assets	2,00,000
1,000, 6% Preference Shares of		Inventory	1,20,000
₹100 each, fully paid	1,00,000	Book debts	2,40,000
2,000 Equity shares of ₹100 each, fully paid	2,00,000	Cash in hand	40,000
2,000 Equity shares of ₹100 each ₹75 paid up	1,50,000	Profit and loss A/c	3,00,000
Loan from bank (on security of stock)	1,00,000		
Trade Payables	3,50,000		
	9,00,000		9,00,000

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹5,000 paid out of cash in hand).

	₹
Fixed assets Inventory	1,68,000
Trade Receivables	1,10,000
	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's Final Statement of Receipts and Payments.

(RTP May, 2019)

Answer**Liquidator's Final Statement of Receipts and Payments A/c**

	₹	₹		₹
To Cash in hand			By Liquidator's remuneration and expenses	5,000
To Assets realised:		40,000		
Fixed assets	1,68,000		By Trade Payables	3,50,000
Inventory			By Preference shareholders	1,00,000
(1,10,000 - 1,00,000) Book debts	10,000	4,08,000	By Equity shareholders @ ₹10 on 2,000 shares	20,000
	2,30,000			
To Cash - proceeds of call on 1,800 equity shares @ ₹15*		27,000		
		4,75,000		4,75,000

Working Note:**Return per equity share**

	₹
Cash available before paying preference shareholders (₹4,48,000 - ₹3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) x ₹25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share = $\frac{\text{Rs. } 3,800}{3,800 (4,000 - 200)} = ₹10$	
and Loss per Equity Share ₹(100-10) = ₹90	

* Calls to be made @ ₹15 per share (₹90-75) on 1,800 shares.

Question 13

Given below is the Balance Sheet of OM Limited as on 31.3.2019:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
14%, 1,60,000 cumulative preference shares of ₹100 each fully paid up	16,00,000	Land	1,60,000
32,000 equity shares of ₹100 each, ₹60 per share paid up	19,20,000	Buildings	6,40,000
Reserves and Surplus	NIL	Plant and Machinery	21,60,000
Secured Loans:		Patents	1,60,000
14% debentures	9,20,000	Investments	NIL
		Current Assets:	
		Inventory at cost	4,00,000

Liabilities	₹	Assets	₹
(Having a floating charge on all assets) Interest accrued on above debentures (Also having a floating charge as above)		Trade receivables	9,20,000
Loan on mortgage of land and building	1,28,800	Cash at bank	2,40,000
Unsecured Loan	6,00,000	Profit and Loss A/c	9,60,000
Current liabilities	NIL		
Trade payables	4,71,200		
	56,40,000		56,40,000

On 31.3.2019 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Trade payables include preferential creditors amounting to ₹1,20,000.

The assets realized the following sums:

Land ₹3,20,000; Buildings ₹8,00,000; Plant and machinery ₹20,00,000; Patent ₹2,00,000; Inventory ₹6,40,000; Trade receivables ₹8,00,000.

The expenses of liquidation amounted to ₹1,17,736. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2019. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

(RTP November 2019)

Answer:

OM Ltd. Liquidator's Final Statement of Account

Receipts	Value Realised		Payments ₹	Payments ₹
<i>Assets Realised:</i>				
Cash at Bank	2,40,000	Liquidator's Remuneration (W.N. 1)		1,02,224
Trade receivables	8,00,000	Liquidation Expenses		1,17,736
Inventory	6,40,000	Debenture holders:		
Plant and Machinery	20,00,000	14% Debentures	9,20,000	
Patent	2,00,000	Interest Accrued (W.N. 2)	<u>1,61,000</u>	10,81,000
Surplus from Securities (W.N. 3)	5,20,000	Creditors:		
		Preferential	1,20,000	
		Unsecured	<u>3,51,200</u>	4,71,200
		Preference Shareholders:		
		Preference Share Capital	16,00,000	

<i>Receipts</i>	<i>Value Realised</i>		<i>Payments ₹</i>	<i>Payments ₹</i>
		Arrears of Dividend Equity Shareholders (W.N.4)	<u>2,24,000</u>	18,24,000
		₹25.12 per share on 32,000 shares		8,03,840
	<u>44,00,000</u>			44,00,000

Working Notes:

		₹
1	Liquidator's remuneration: 2% on assets realised (2% of ₹47,60,000) 2% on payments to unsecured creditors (2% on ₹3,51,200)	95,200 <u>7,024</u> <u>1,02,224</u>
2	Interest accrued on 14% Debentures: Interest accrued as on 31.3.2019 Interest accrued upto the date of payment i.e. 30.6.2019	1,28,800 <u>32,200</u> <u>1,61,000</u>
3	Surplus from Securities: Amount realised from Land and Buildings (₹3,20,000 + ₹8,00,000) Less: Mortgage Loan	11,20,000 <u>(6,00,000)</u> <u>5,20,000</u>
4	Amount payable to Equity Shareholders: Equity share capital (paid up) Less: Amount available for equity shareholders Loss to be borne by equity shareholders Loss per equity share (₹11,16,160/32,000) Amount payable to equity shareholders for each equity share (60-34.88)	19,20,000 <u>(8,03,840)</u> <u>11,16,160</u> 34.88 25.12

Receiver Statement

Question 14

Virat Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2018:

Particulars		₹	₹
Equity and Liabilities:			
(1)	Shareholders Funds:		
	Share Capital 10,000, 12% Pref. Shares of ₹100 each fully paid up	10,00,000	
	1,00,000 Equity shares of ₹10 each fully paid up	10,00,000	
	50,000 Equity shares of ₹10 each, ₹8 paid up	4,00,000	24,00,000
(b)	Reserve and Surplus		
	Profit & Loss A/c. (Dr. Balance)		(3,50,000)
(2)	Non-current Liabilities:		
	12% Debentures	15,00,000	
	Loan on Mortgage	4,50,000	19,50,000
(3)	Current Liabilities:		
	Bank Overdraft	2,75,000	
	Trade Payables	7,30,000	10,05,000
	Total		50,05,000
Assets:			
(1)	Non-current Assets:		
	Fixed Assets - Land & Buildings		6,00,000
(2)	Current Assets: Sundry Current Assets		44,05,000
	Total		50,05,000

The mortgage loan was secured against the Land & Buildings. Debentures were secured by a floating charge on all the assets of the company. The debenture holders appointed a Receiver. The company being voluntarily wound up, a liquidator was also appointed. The Receiver was entrusted with the task of realising the Land & Buildings which fetched ₹7,50,000. Receiver also took charge of Sundry current assets of value ₹30,00,000 and sold them for ₹28,75,000. The Bank overdraft was secured by a personal guarantee of the directors who discharged their obligations in full from personal resources. The costs of the Receiver amounted to ₹10,000 and his remuneration ₹15,000.

The expenses of liquidator was ₹17,500 and his remuneration was decided at 2% on the value of the assets realised by him. The remaining assets were realised by liquidator for ₹12,50,000. Preference dividend was in arrear for 2 years. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.

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

(November 2018) (10 marks)

Answer:**Receiver's Receipts and Payments Account**

	₹		₹
Sundry Assets realized	28,75,000	Costs of the Receiver	10,000
Surplus received from Mortgage		Remuneration to Receiver	15,000
Sale Proceeds of land and building 7,50,000		Debentures holders Principal*	15,00,000
Less: Applied to Discharge of mortgage loan (4,50,000)	3,00,000	Surplus transferred to the Liquidator	16,50,000
	31,75,000		31,75,000

Note:* Assumed that interest on debentures has already been paid before winding up proceedings.

Liquidator's Final Statement of Account

	₹		₹
Surplus received from Receiver	16,50,000	Cost of Liquidation (legal exp.)	17,500
Assets Realized	12,50,000	Remuneration to Liquidator (12,50,000 x 2%)	25,000
Calls on partly paid Shareholders:		Unsecured Creditors:	
		for Trade	7,30,000
		Directors for payment of Bank O/D	2,75,000
		Preferential Shareholders:	
		Capital	10,00,000
		Arrears of Preference Dividends	2,40,000
		Equity shareholders:	
		Return of money to contributors to holders	
		1,00,000 shares at ₹4.75	4,75,000
		50,000 shares at ₹2.75	1,37,500
	29,00,000		29,00,000

Working Note:

Amount to be paid or received from Equity shareholders	₹
Total Equity share capital paid up	14,00,000
Less: Surplus before call from Equity Shares (29,00,000 — 22,87,500)	(6,12,500)
Loss to be borne by 1,50,000 shares	7,87,500
Loss per share = (7,87,500/1,50,000 shares)	5.25
Hence, Refund to Equity shareholders of 1,00,000 shares of ₹10 fully paid up	4.75
Refund to Equity shareholders of 50,000 shares of ₹8 paid up	2.75

B List

Question 15

In a liquidation which commenced on 11th November, 2017 certain creditors could not receive payments out of the realization of assets and out of the contributions from "A" list contributories.

The following are the details of certain transfer, which took place in 2016 and 2017:

Share holders	Number of shares transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding
C	2,500	1st September, 2016	5,000
P	1,500	1st January, 2017	9,000
D	2,000	1st April, 2017	12,000
B	700	1st August, 2017	13,500
S	300	15th September, 2017	14,500

All the shares were ₹10 each, ₹5 paid up.

Ignoring expenses of and remuneration to liquidators show the amount to be realised from various persons listed above.

(May 2018) (5 Marks)

Answer:

Statement of Liabilities of B list contributors (showing the amount realized)

	P	D	B	S	Amount to
Creditors Outstanding on the date of ceasing to be member	1,500 Shares ₹	2,000 Shares ₹	700 Shares ₹	300 Shares ₹	be paid to the Creditors ₹
(1) 9,000	3,000	4,000	1,400	600	9,000
(2) 3,000	-	2,000	700	300	3,000
(3) 1,500	-	-	1,050	450	1,500
(4) 1,000	-	-	-	1,000	150
Total (a)	3,000	6,000	3,150	2,350	
(b) maximum liability on shares held	7,500	10,000	3,500	1,500	
(c) Amount to be realized (a) or (b) whichever is lower	3,000	6,000	3,150	1,500	

Working Notes:

1. C will not be liable since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 01.01.2017 (from the date when he ceases to be a member). Similarly, D & B will not be liable for the debts incurred after the date of their transfer of shares.

3. The increase between 1st August 2017 and 15th September 2017, is solely the responsibility of S. Liability of S has been restricted to the maximum allowable limit of ₹1,500. Therefore, amount payable by S on 15.09.2017 is ₹150 only.
4. Ratio of discharge of liability will be in the ratio of no. of shares held by B List Contributories which is as follows:

Calculation of Ratio for discharge of Liabilities

Date	Cumulative liability ₹	Increase in liabilities ₹	Ratio of no. of shares held by L, M, N, O
01.01.2017	9,000	-	15:20:7:3
01.04.2017	12,000	3,000	20:7:3
01.08.2017	13,500	1,500	7:3
15.09.2017	14,500	1,000	Only S

Question 16

Liquidation of YZ Ltd. commenced on 2nd April, 2018. Certain creditors could not receive payments out of the realisation of assets and out of the contributions from A list contributories. The following are the details of certain transfers which took place in 2017 and 2018:

Shareholders	No. of Shares transferred	Date of Ceasing to be a member	Creditors remaining unpaid and outstanding on the date of such transfer
A	2,000	1st March, 2017	₹5,000
P	1,500	1st May, 2017	₹3,300
Q	1,000	1st October, 2017	₹4,300
R	500	1st November, 2017	₹4,600
S	300	1st February, 2018	₹6,000

All the shares were of ₹10 each, ₹8 per share paid up. You are required to compute the amount to be realized from the various persons listed above ignoring expenses and remuneration to liquidator etc.

(RTP November 2018)

Answer

Statement of liabilities of B list contributories

Share- holders	No. of shares transferred	Maximum liability (upto f 2 per share)	Division of Liability as on				
			1.5. 2017	1.10. 2017	1.11. 2017	1.2. 2018	Total
		₹	₹				₹
P	1,500	3,000	1,500	-	-	-	1,500
Q	1,000	2,000	1,000	555	-	-	1,555
R	500	1,000	500	278	188	-	966
S	300	600	300	167	112	21	600
	3,300	6,600	3,300	1,000	300	21	4,621

Working Note:

Date	Cumulative liability	Increase in liability	Ratio of no. of shares held by the members
1.5.2017	3,300	-	30: 20:10: 6
1.10.2017	4,300	1,000	20:10:6
1.11.2017	4,600	300	10:6
1.2.2018	6,000	1,400	Only S

Liability of S has been restricted to the maximum allowable limit of ₹600, therefore amount payable by S is restricted to ₹21 only, on 1.2.2018.

Notes:

1. A will not be liable to pay to the outstanding creditors since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 1st May, 2017 (from the date when he ceases to be member). Similarly, Q and R will not be responsible for the debts incurred after the date of their transfer of shares.

Chapter 3

Consolidated Financial Statements

Calculation of Minority Interest

Question 1

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of ₹5,00,000 when S Ltd. had an equity share capital of ₹5,00,000 and reserve and surplus of ₹40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. fared badly and suffered losses of ₹1,25,000, ₹2,00,000, ₹2,50,000 and ₹60,000 respectively.

Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of ₹25,000. In the next two years i.e. 2016 and 2017, S Ltd. recorded annual profits of ₹50,000 and ₹75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

(May 2019) (10 Marks)

Answer:

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Profit/ (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition on 1.1.2011		1,62,000 (W.N.)	-			1,22,000 (W.N.)
2011	(1,25,000)	<u>(37,500)</u>	(87,500)			
Balance		1,24,500				
2012	(2,00,000)	<u>(60,000)</u>	(1,40,000)			1,22,000
Balance		64,500				
2013	(2,50,000)	<u>(75,000)</u>	(1,75,000)			1,22,000
		(10,500)				
	Loss of minority borne by Holding Co.	<u>10,500</u>	<u>(10,500)</u>	10,500	10,500	
Balance		Nil	<u>(1,85,500)</u>			
2014	(60,000)	(18,000)	(42,000)			1,22,000
	Loss of Minority borne by Holding Co.	18,000	(18,000)	18,000	28,500	
Balance		<u>Nil</u>	<u>(60,000)</u>			
2015	25,000	7,500	17,500			1,22,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(7,500)	7,500	(7,500)	21,000	
Balance	Co.	<u>Nil</u>	<u>25,000</u>			

Year	Profit/ (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) or Cr.	Minority's Share of losses borne by H Ltd.		Cost of Control
				₹	Balance	
2016	50,000	15,000	35,000	(15,000)	6,000	1,22,000
		<u>(15,000)</u>	<u>15,000</u>			
Balance		Nil	<u>50,000</u>			
2017	75,000	22,500	52,500	(6,000)	Nil	1,22,000
		<u>(6,000)</u>	<u>6,000</u>			
Balance		16,500	58,500			

Working Note:

Calculation of Minority interest and Cost of control on 1.1.2011

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	5,00,000	3,50,000	1,50,000
Reserve	40,000	<u>28,000</u>	<u>12,000</u>
		3,78,000	<u>1,62,000</u>
Less: Cost of investment		<u>(5,00,000)</u>	
Goodwill		<u>1,22,000</u>	

Question 2

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹2,00,000 and the balance in the Profit & Loss Account was ₹1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹40,000 and at year end, declared and paid a dividend of ₹60,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

You are required to compute amount of minority interest as on 1st January, 2016 and 31st December, 2016?

(MTP March 2018) (5 Marks)

Answer:

Total dividend paid = ₹60,000

Out of post-acquisition profit = ₹40,000

Out of pre-acquisition profit = ₹20,000

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

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

In the books of XYZ Ltd.

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

Question 3

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹10,00,000 when B Ltd. had an equity share capital of ₹10,00,000 and reserves and surplus of ₹80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹2,50,000, ₹4,00,000, ₹5,00,000 and ₹1,20,000 respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit of ₹50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of ₹1,00,000 and ₹1,50,000 respectively.

You are required to compute the minority interests and cost of control at the end of each year for the purpose of consolidation.

(MTP April 2018) (10 Marks)

Answer:

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	—			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000
Balance		2,49,000				(W.N.)

Year	Profit/ (Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost of Control
				₹	Balance	
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority	(15,000)	15,000	(15,000)	42,000	
Balance	absorbed by Holding Co.	Nil	50,000			
2015-16	1,00,000	—	1,00,000	(30,000)	12,000	2,44,000
Balance		Nil				
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2010

	100%	Share of Holding Co.	Minority Interest
		70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

Question 4

From the following data, determine the amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost ₹	Date of acquisition		Consolidation Date	
				1.1.2016		31.12.2016	
				Share Capital ₹	Profit & Loss Account ₹	Share Capital ₹	Profit & Loss Account ₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

(MTP April 2018) (5 Marks)

Answer:

The balance in the Profit & Loss Account on the date of acquisition (1.1.2016) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.2016 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [K]	P & L as on 31.12.2016 [L]	P & L as on consolidation date [M]	P & L post acquisition [N] = [M]-[L]	Amount to be added/ (deducted) from holding's P&L [O] = [K] x [N]
1	90%	50,000	70,000	20,000	18,000
2	85%	30,000	20,000	(10,000)	(8,500)
3	80%	20,000	20,000	Nil	Nil
4	100 %	40,000	55,000	15,000	15,000

Question 5

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of ₹70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

	₹ in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(MTP October 2018) (5 Marks)

Answer:

Revalued net assets of Zed Ltd. as on 31st March, 2017

	₹ in lakhs	₹ in lakhs
Fixed Assets [120 X 120%]		144.0
Investments [55 X 90%]		49.5
Current Assets		70.0
Loans and Advances		<u>15.0</u>
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current Liabilities	<u>50.0</u>	<u>(140.0)</u>
Equity/Net Worth		<u>138.5</u>
Exe Ltd.'s share of net assets (70% of 138.5)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd. (₹70 lakhs – ₹7 lakhs*)		<u>63.00</u>
Capital reserve		<u>33.95</u>

* Total Cost of 70 % Equity of Zed Ltd ₹70 lakhs

Purchase Price of each share ₹20

Number of shares purchased [70 lakhs/₹20] 3.5 lakhs

Dividend @ 20 % i.e. ₹2 per share ₹7 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

Question 6

The following data is provided to you:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition		Consolidation Date	
				1.1.2018		31.12.2018	
				Share Capital	Profits Loss Account	Share Capital	Profits Loss Account
			₹	₹	₹	₹	₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

Determine in each case:

- (1) Minority interest at the date of acquisition and at the date of consolidation.
- (2) Goodwill or Capital Reserve.

(RTP May, 2019)

Answer:

(1) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case it should be equal to Share Capital + Profit & Loss A/c.

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consideration
	[E]	$[E] \div [A+B] ₹$	$[E] \div [C + D] ₹$
Case 1 [100-90]	10%	15,000	17,000
Case 2 [100-85]	15%	19,500	18,000
Case 3 [100-80]	20%	14,00	14,000
Case 4 [100-100]	Nil	Nil	Nil

A = Share capital on 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 1.1.2018

(2) Calculation of Goodwill or Capital Reserve

	Shareholding	Cost	Total Equity	Parent's Portion of equity	Goodwill	Capital Reserve
	% [F]	[G]	$[A]+[B] = [H]$	$[F] \times [H]$	$₹[G]-[H]$	$₹[H] - [G]$
Case I	90%	1,40,000	1,50,000	1,35,000	5,000	—
Case 2	85%	1,04,000	1,30,000	1,10,500	—	6,500
Case 3	80%	56,000	70,000	56,000	Nil	Nil
Case 4	100%	1,00,000	90,000	90,000	10,000	—

Question 7

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹10,00,000 when B Ltd. had an equity share capital of ₹10,00,000 and reserves and surplus of ₹80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹2,50,000, ₹4,00,000, ₹5,00,000 and ₹1,20,000 respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit of ₹50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of ₹1,00,000 and ₹1,50,000 respectively.

You are required to compute the minority interests and cost of control at the end of each year for the purpose of consolidation.

(MTP-March 2019) (10 Marks)

Answer:

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	Profit (Loss)	Minority Interest (30%)	Additional Consolidated P&L (Dr.) Cr.	Minority's Share of losses borne by A Ltd.		Cost or Control
				₹	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance 2011-12	(4,00,000)	2,49,000 (1,20,000)	(2,80,000)			2,44,000
Balance 2012-13	(5,00,000)	1,29,000 (1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance 2013-14	(1,20,000)	Nil (36,000)	(3,71,000) (34,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance 2014-15	50,000	Nil 15,000 (15,000)	(1,20,000) 35,000 15,000	(15,000)	42,000	2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.					
Balance 2015-16	1,00,000	Nil -	50,000 1,00,000	(30,000)	12,000	2,44,000
Balance 2016-17	1,50,000	Nil 45,000 (12,000)	1,05,000 12,000	(12,000)	Nil	2,44,000
Balance		33,000	1,17,000			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2010

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

Question 8

From the following data, determine the amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be ₹2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost ₹	Date of acquisition		Consolidation Date	
				1.1.2018		31.12.2018	
				Share Capital ₹	Profit & Loss Account ₹	Share Capital ₹	Profit & Loss Account ₹
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

(MTP-March 2019) (5 Marks)

Answer:

The balance in the Profit & Loss Account on the date of acquisition (1.1.2018) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.2018 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [K]	P & L as on 31.12.2018 [L]	P & L as on consolidation date [M]	P & L post acquisition [N] = [M]-[L]	Amount to be added/ (deducted) from holding's P & L [O] = [K] x [N]
1	90%	50,000	70,000	20,000	18,000
2	85%	30,000	20,000	(10,000)	(8,500)
3	80%	20,000	20,000	Nil	Nil
4	100%	40,000	55,000	15,000	15,000

Question 9

XYZ Ltd. purchased 80% shares of ABC Ltd. on 1st January, 2016 for ₹2,80,000. The issued capital of ABC Ltd., on 1st January, 2016 was ₹2,00,000 and the balance in the Profit & Loss Account was ₹1,20,000.

During the year ended 31st December, 2016, ABC Ltd. earned a profit of ₹40,000 and at year end, declared and paid a dividend of ₹60,000.

Show by an entry how the dividend should be recorded in the books of XYZ Ltd.

What is the amount of minority interest as on 1st January, 2016 and 31st December, 2016?

(MTP-April 2019) (5 Marks)

Answer:

Total dividend paid = ₹60,000

Out of post-acquisition profit = ₹40,000

Out of pre-acquisition profit = ₹20,000

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

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

In the books of XYZ Ltd.

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

Question 10

From the following data determine in each case:

Minority Interest at the date of acquisition and at the date of consolidation.

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2018		31-12-2018	
				Share Capital	Profit and Loss a/c	Share Capital	Profit and Loss a/c
				₹	₹	₹	₹
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

(November 2019, New Course, 5 Marks)

Answer

Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2018

B = Profit & loss account balance on 1.1.2018

C = Share capital on 31.12.2018

D = Profit & loss account balance on 31.12.2018

	Minority % Shares Owned	Minority interest as at the date of acquisition	Minority interest as at the date of consolidation
	[E]	[E] × [A + B] ₹	[E] × [C + D] ₹
Case A [100-90]	10 %	22,500	23,500
Case B [100-75]	25 %	50,000	40,000
Case C [100-70]	30 %	18,000	18,000
Case D [100-95]	5%	4,750	5,750
Case E [100-100]	NIL	NIL	NIL

Question 11

A Ltd. acquired 70% of equity shares of B Ltd. on 1.4.2010 at cost of ₹10,00,000 when B Ltd. had an equity share capital of ₹10,00,000 and reserves and surplus of ₹80,000. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹2,50,000, ₹4,00,000, ₹5,00,000 and ₹1,20,000 respectively. Thereafter in 2014-15, B Ltd. experienced turnaround and registered an annual profit of ₹50,000. In the next two years i.e. 2015-16 and 2016-17, B Ltd. recorded annual profits of ₹1,00,000 and ₹1,50,000 respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

[MTP October, 2019, 12 Marks]

Answer

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly, the minority interests will be computed as follows:

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Snare of losses borne by A Ltd		Cost of Control
				₹	Balance	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance 2011-12	(4,00,000)	2,49,000 (1,20,000)	(2,80,000)			2,44,000
Balance 2012-13	(5,00,000)	1,29,000 (1,50,000) (21,000)	(3,50,000)			2,44,000
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance 2013-14	(1,20,000)	Nil (36,000)	(3,71,000) (84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance 2014-15	50,000	Nil 15,000 (15,000)	(1,20,000) 35,000 15,000	(15,000)	42,000	2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.					

Year	Profit/(Loss)	Minority Interest (30%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Snare of losses borne by A Ltd		Cost of Control
				₹	Balance	
Balance 2015-16	1,00,000	Nil	50,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	30,000 (30,000)	70,000 30,000	(30,000)	12,000	2,44,000
Balance 2016-17	1,50,000	Nil	100,000			
		45,000 (12,000)	1,05,000 12,000	(12,000)	Nil	2,44,000
Balance		33,000	1,17,000			

Working Note:

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(₹)	(₹)	(₹)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

Full Consolidation

Question 12

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2017:

	H Ltd. (₹)	S Ltd. (₹)
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of ₹10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000

	H Ltd. (₹)	S Ltd. (₹)
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Total	22,37,000	5,43,000

	H Ltd. (₹)	S Ltd. (₹)
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. -16,000 shares @ ₹20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
Total	22,37,000	5,43,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹50,000 and ₹30,000 respectively.

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 on 1st April, 2016 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹55,000 purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet as at 31st March, 2017.

(May 2018) (20 Marks)

Answer:

**Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as at 31st March, 2017**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		12,00,000
(1,20,000 equity shares of ₹10 each)		
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500

Particulars	Note No.	(₹)
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	3	13,10,500
(ii) Intangible assets	4	24,000
(b) Current assets		
(i) Inventories	5	3,25,000
(ii) Trade Receivables	6	6,70,000
(iii) Cash at Bank	7	1,96,000
Total		25,25,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	General Reserves	4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)	84,000	5,19,000
	Profit and Loss Account	2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200	
	Less: Unrealised gain	(4,000)	2,97,200
			8,16,200
2.	Trade Payables		
	H Ltd.	3,22,000	
	S Ltd.	1,23,000	
	Less: Mutual transaction	(35,000)	4,10,000
3.	Tangible Assets		
	Machinery		
	H. Ltd.	6,40,000	
	S Ltd.	2,00,000	
	Add: Appreciation	1,00,000	
		3,00,000	
	Less: Depreciation	(30,000)	2,70,000
	Furniture		
	H. Ltd.	3,75,000	
	S Ltd.	40,000	

				₹
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000
6.	Trade Receivables			
	H. Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H. Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:**1. Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2016**

	₹
Machinery	
Revaluation as on 1.4.2016	3,00,000
Less: Book value as on 1.4.2016	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2016	30,000
Less: Book value as on 1.4.2016	(40,000)
Loss on revaluation	(10,000)

2. Calculation of short/excess depreciation

	Machinery	Furniture
Upward/(Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. Analysis of reserves and profits of S Ltd. as on 31.03.2017

	Pre-acquisition profit upto 1.4.2016	Post-acquisition profits (1.4.2016-31.3.2017)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2017	50,000	1,05,000	
Profit and loss account as on 31.3.2017	30,000		35,000
Upward Revaluation of machinery as on 1.4.2016	1,00,000		
Downward Revaluation of Furniture as on 1.4.2016	(10,000)		
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

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

* considered that ₹55,000 is cost to H Ltd. Alternative solution considering it as cost to S Ltd. is also possible

5. Cost of Control or Goodwill

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

Question 13

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 areas follows:

Particulars	Amounts as at 31st March, 2017	
	X Ltd. (₹ in lakhs)	Y Ltd. (₹ in lakhs)
LIABILITIES		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of ₹10 each, fully paid up	15,000	6,000
15% preference shares of ₹10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
	25,896	10,727
ASSETS		
Land & Building	3,550	1,510
Plants Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.:		
450 Lakh Equity share in Y Ltd. purchased on 1st April, 2016	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	10,727

The following information is also given to you

- 10% dividend on Equity shares was declared by Y Ltd. on 31st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.
- Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was ₹650 Lakhs.
- General Reserve of Y Ltd. stood at same ₹1,450 Lakhs as on 1st April, 2016.
- Y Ltd.'s Plant & machinery showed a balance of ₹4,000 Lakh on 1st April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by ₹1,000 Lakh.
- Included in Trade Payables of Y Ltd. are ₹50 Lakh for goods supplied by X Ltd.
- On 31st March, 2017, Y's Ltd. inventory included goods for ₹150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. (Ignoring dividend on preference shares).

(RTP November 2018)

Answer:

Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017

	Particulars	Note No.	₹ in lakhs
I	Equity and Liabilities		
1	Shareholders' Funds		
	(a) Share Capital	1	19,000
	(b) Reserves and Surplus	2	5,620
2.	Minority interest	3	3,400
3.	Current Liabilities		
	(a) Trade payables	4	2,623
	Total		30,643
II	Assets		
1	Non Current Assets		
	Fixed Assets		
	(i) Tangible Assets	5	17,435
2	Current Assets		
	(a) Inventories	6	6,632
	(b) Trade Receivables	7	4,842
	(c) Cash and Cash equivalents	8	1,734
			30,643

Notes to Accounts

			₹ in lakhs
1.	Share Capital		
	Issued, Subscribed and Paid up (1,500 lakh Equity Shares of ₹10 each fully paid up)		15,000
	400 lakh Preference Shares of ₹10 each fully paid up		4,000
			19,000
2.	Reserves and Surplus		
	Credit Balance of Profit & Loss Account	2,750	
	Less: Capital Receipt wrongly credited (Dividend @ 10% on ₹4500 Lakh Equity Shares)	450	
		2,300	
	Add: Share in Y Ltd. Revenue Profit (Working Note i)	825	
		3,125	

			₹ in lakhs
	Less: Unrealised Profit (Working Note iv)	30	3,095
	Capital Reserve (Working Note iii)	25	
	General Reserve	2,500	2,525
			5,620
3. Minority interest			
	100 Lakh Preference Shares of ₹10 fully paid up	1,000	
	150 Lakh Equity Shares of ₹10 each fully paid up	1,500	2,500
	Share in Revenue Profits (Working Note i)	275	
	Share in Capital Profit (working Note ii)	625	900
			3,400
4. Trade payables			
	X Ltd.	1,646	
	Y Ltd.	1,027	
		2,673	
	Less: Mutual owing	50	2,623
5. Tangible Assets			
	Land & Building		
	X Ltd.	3,550	
	Y Ltd	1,510	5,060
	Plants Machinery		
	X Ltd.	5,275	
	Y Ltd (Working note v)	4,500	9,775
	Furniture & Fixtures		
	X Ltd.	1,945	
	Y Ltd	655	2,600
			17,435
6. Inventories			
	X Ltd.	4,142	
	Y Ltd	2,520	
		6,662	
	Less: Unrealized Profit	1301	6,632
7. Trade Receivables			
	X Ltd.	3,010	
	Y Ltd	1,882	
		4,892	
	Less: Mutual Owing	50	4,842

			₹ in lakhs
8. Cash & cash Equivalents			
X Ltd.		1,174	
Y Ltd		560	1,734

Working Notes**(i) Calculation of Revenue Profits****Y's Ltd Profit & Loss Account**

	₹ in lakh		₹ in lakh
To Equity Dividend		By Balance b/d	650
10% of 6,000 lakh	600	By Net profit for the year (Bal Fig.)	1,200
To balance c/d	1,250		
	1,850		1,850

Depreciation provided on Plant & Machinery

Balance as on 1st April, 2016	4,000
Less Balance as 31st March 2017	3,600
	400
Hence rate of Depreciation = $400/4000 \times 100$	10%
Net Profit for the year ended 31st March 2017	1,200
Less: Additional Depreciation	100
Revenue Profit	1,100
X Ltd's share- $1100 \times 450/600$	825
Y Ltd's share = $1100 \times 150/600$	275

(ii) Calculation of Capital Profits

Profit & Loss Balance as on 1st April, 2016	650
Less: Dividend Paid	600
	50
Add: General Reserve as on 1st April, 2016	1,450
Add: Profit on Revaluation of Plant & machinery	1,000
Capital Profit	2,500
X Ltd's Share in Capital Profit = $2,500 \times 450/600$	1,875
Y Ltd's Share in Capital Profit = $2,500 \times 150/600$	625

(iii) Calculation of Capital Reserve

Paid up value of 450 Lakh equity shares	4,500
Add: Share in Capital Profits	1,875
	6,375
Amount Paid to acquire the 450 Lakh Equity Shares	6,800
Less: Dividend received out of Pre acquisition profits	450
	6,350
Capital Reserve = $6,375 - 6,350$	25

(iv) Unrealised Profit

₹150 Lakh $\times$ 25/125* = 30 lakh

(v) Plant & Machinery of Y Ltd.

Balance as on 31st March, 2017		3,600
Add: Addition due to revaluation	1,000	
Less: Depreciation on additional Value of Plant & Machinery @ 10 %	100	900
		4,500

* ₹150 lakh considered as cost to Y Ltd.

Question 14

Consider the following summarized balance sheets of subsidiary Neel Ltd.:

	2015 ₹	2016 ₹		2015 ₹	2016 ₹
Share-Capital Issued & subscribed 2,500 equity shares of ₹100 each	2,50,000	2,50,000	Fixed Assets Cost	1,60,000	1,60,000
Reserves & Surplus			Less: Accumulated depreciation	(24,000)	(48,000)
				1,36,000	1,12,000
Revenue reserves	1,43,000	3,57,000	Investments at cost		
Current Liabilities & Provisions:			Current Assets:	—	2,00,000
Trade Payables	2,45,000	2,47,000	Inventory	2,98,500	3,71,000
Bank overdraft	—	85,000	Trade Receivables	2,97,000	4,45,500
Provision for taxation	1,55,000	2,15,000	Prepaid Expenses	36,000	24,000
			Cash at Bank	25,500	1,500
	7,93,000	11,54,000		7,93,000	11,54,000

Also consider the following information:

- Neel Ltd. is a subsidiary of Sky Ltd. Both the companies follow calendar year as the accounting year.
- Sky Ltd. values inventory on LIFO basis while Neel Ltd. used FIFO basis. To bring Neel Ltd.'s values in line with those of Sky Ltd. its value of inventory is required to be reduced by ₹6,000 at the end of 2015 and ₹17,000 at the end of 2016.
- Neel Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- Prepaid expenses in Neel Ltd. include advertising expenditure carried forward of ₹30,000 in 2015 and ₹15,000 in 2016, being part of initial advertising expenditure of ₹45,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of Sky Ltd. has been fully written off in 2015.

You are required to restate the balance sheet of Neel Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Make the necessary restatement which is necessary to make the accounting policies adopted by Sky Ltd. and Neel Ltd. uniform.

(MTP-April 2019) (12 Marks)

Answer:

(a) Adjusted revenue reserves of Neel Ltd.

	₹	₹
Revenue reserves as given		3,57,000
Add: Provision for doubtful debts $[4,45,500/99 \times 1]$		4,500
		3,61,500
Less: Reduction in value of Inventory	17,000	
Advertising expenditure to be written off	15,000	(32,000)
Adjusted revenue reserve		3,29,500

Note: Since Neel Ltd. follows FIFO basis, it is assumed that opening inventory has been sold out during the year 2015. Therefore, reduction in inventory would have been taken care of by sale value. Hence no adjustment has been made for the same.

**Restated Balance Sheet of Neel Ltd.
as at 31st December, 2016**

	Particulars	Note No.	(₹)
I.	Equity and Liabilities		
	(1) Shareholder's Funds		2,50,000
	(a) Share Capital	1	3,29,500
	(b) Reserves and Surplus		
	(2) Current Liabilities		
	(a) Short term borrowings	2	85,000
	(b) Trade Payables		2,47,000
	(c) Short-term provision	3	2,15,000
	Total		11,26,500
II.	Assets		
	(1) Non-current assets		
	(a) Fixed assets		
	Tangible assets	4	1,12,000
	(b) Non-current Investment		2,00,000
	(2) Current assets		
	(a) Inventories		3,54,000
	(b) Trade Receivables		4,50,000
	(c) Cash & Cash Equivalents		1,500
	(d) Other current assets		9,000
	Total		11,26,500

Notes to Accounts

			₹
1. Reserves and Surplus			
Revenue Reserve (refer computation of adjusted revenue reserves of Neel Ltd)			3,29,500
2. Short term borrowings			85,000
Bank overdraft			
3. Short-term provision			2,15,000
Provision for taxation			
4. Tangible Assets			
Cost	1,60,000		
Less: Depreciation to date	(48,000)		1,12,000
5. Other current assets			
Prepaid expenses (After adjusting advertising expenditure to be written off each year)			9,000

Question 15

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2019:

	H Ltd. (₹)	S Ltd. (₹)
<u>Equity and Liabilities</u>		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of ₹10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	<u>3,25,000</u>	<u>1,25,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>
	H Ltd. (₹)	S Ltd. (₹)
<u>Assets</u>		
Non-Current Assets		
Property, Plant and Equipment		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,73,000	2,37,000
Cash and Bank	<u>1,64,000</u>	<u>32,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹50,000 and ₹30,000 respectively.

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 on 1st April, 2018 for the purpose of fixing the price of its shares (rates of depreciation computed on the basis of useful lives: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹40,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. Includes goods costing ₹55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.

(RTP November 2019)

Answer:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2019

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

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post- acquisition reserves (W.N.3)		<u>84,000</u>	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post- acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	<u>(4,000)</u>	<u>17,200</u>	<u>2,97,200</u>
				<u>8,16,200</u>
2.	Trade Payables			
	H Ltd.		3,25,000	
	S Ltd.		1,25,000	
	Less: Mutual transaction		<u>(40,000)</u>	4,10,000
3.	Tangible Assets			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	<u>1,00,000</u>		
		3,00,000		
	Less: Depreciation	<u>(30,000)</u>	<u>2,70,000</u>	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	<u>(10,000)</u>		
		30,000		
	Less: Depreciation	<u>(4,500)</u>	<u>25,500</u>	<u>4,00,500</u>
				<u>13,10,500</u>
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		<u>62,000</u>	3,30,000

				₹
	Less: Inventory reserve			<u>(5,000)</u>
				<u>3,25,000</u>
6.	Trade Receivables			
	H Ltd.	4,73,000		
	S Ltd.	<u>2,37,000</u>	7,10,000	
	Less: Mutual transaction			<u>(40,000)</u>
				<u>6,70,000</u>
7.	Cash and Bank			
	H Ltd.	1,64,000		
	S Ltd.	<u>32,000</u>	<u>1,96,000</u>	

Working Notes:**1 Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2018**

	₹
Machinery	
Revaluation as on 1.4.2018	3,00,000
Less: Book value as on 1.4.2018	<u>(2,00,000)</u>
Profit on revaluation	<u>1,00,000</u>
Furniture	
Revaluation as on 1.4.2018	30,000
Less: Book value as on 1.4.2018	<u>(40,000)</u>
Loss on revaluation	<u>(10,000)</u>

2 Calculation of short/excess depreciation

	Machinery	Furniture
Upward/(Downward) Revaluation (W.N. 4)	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	<u>(10,000)</u>	<u>1,500</u>

3. Analysis of reserves and profits of S Ltd. as on 31.03.2019

	Pre-acquisition profit upto 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
	(Capital profits)	General Reserve	Profit and loss account
General reserve as on 31.3.2019	50,000	1,05,000	
Profit and loss account as on 31.3.2019	30,000		35,000
Upward Revaluation of machinery as on 1.4.2018	1,00,000		
Downward Revaluation of Furniture as on 1.4.2018	(10,000)		

	Pre-acquisition profit upto 1.4.2018	Post-acquisition profits (1.4.2018 – 31.3.2019)	
	(Capital profits)	General Reserve	Profit and loss account
Short depreciation on machinery (W.N. 5)			(10,000)
Excess depreciation on furniture (W.N. 5)			<u>1,500</u>
Total	<u>1,70,000</u>	<u>1,05,000</u>	<u>26,500</u>

4. Minority Interest

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

5. Cost of Control or Goodwill

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

Question 16

Consider the following summarized Balance Sheets of subsidiary MNT Ltd.:

Liabilities	2017-18 Amount in ₹	2018-19 Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity		
Shares of ₹100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000

Liabilities	2017-18 Amount in ₹	2018-19 Amount in ₹
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	—	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	—	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

- (1) MNT Ltd. is a subsidiary of LTC Ltd.
- (2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹5,000 at the end of 2017-2018 and increased by ₹12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)
- (3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.
- (4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹25,000 in 2017-18 and ₹12,500 in 2018-19 being part of initial Sales Promotion expenditure of ₹37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

(November 2019, New Course, 10 Marks)

Answer**Restated Balance Sheet of MNT Ltd. as at 31st December, 2019**

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500

Particulars	Note No.	(₹)
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables		3,50,000
(c) Cash & Cash Equivalents		
(d) Other current assets	6	42,500
		52,500
Total		23,14,500

Notes to Accounts

		₹
1. Reserves and Surplus		
Revenue Reserve (refer W.N.)	5,11,500	
Securities Premium	<u>2,07,000</u>	7,18,500
2. Short term borrowings		
Bank overdraft		1,70,000
3. Short-term provision		
Provision for taxation		4,30,000
4. Property, Plant and Equipment		
Cost	9,20,000	
Less: Depreciation to date	<u>(2,82,500)</u>	6,37,500
5. Inventories	6,90,000	
Increase in value as per FIFO	<u>12,000</u>	7,02,000
6. Other current assets		
Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:**Adjusted revenue reserves of MNT Ltd.:**

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98]	7,000	
Add: Increase in value of inventory	<u>12,000</u>	<u>19,000</u>
		5,24,000
Less: Sales Promotion expenditure to be written off		<u>(12,500)</u>
Adjusted revenue reserve		<u>5,11,500</u>

Question 17

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

- Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1st April, 2018.
- Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2018 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

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

Liabilities	Kedar Ltd.	Vijay Ltd.	Assets	Kedar Ltd.	Vijay Ltd.
Equity and Liabilities	₹	₹	Non-current assets	₹	₹
Shareholders' funds			Fixed assets		
Share Capital			Machinery	7,50,000	2,25,000
Shares of ₹ 100 each	15,00,000	2,50,000	Furniture	3,75,000	42,500
Reserves	5,00,000	1,87,500	Other non-current assets	11,00,000	3,75,000
Profit and Loss			Non-current Investments		
Account	2,50,000	62,500	Shares in Vijay Ltd.:		
Trade Payables	<u>3,75,000</u>	<u>1,42,500</u>	2,000 shares at ₹ 200 each	<u>4,00,000</u>	<u>—</u>
	<u>26,25,000</u>	<u>6,42,500</u>		<u>26,25,000</u>	<u>6,42,500</u>

(May 2020)

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

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	<u>5,17,500</u>
Total		<u>29,99,375</u>
II. Assets		
(1) Non-current assets		
(a) (i) Property, Plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non-current assets	5	<u>14,75,000</u>
Total		<u>29,99,375</u>

Notes to Accounts

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

				₹
	Add: Appreciation	<u>1,25,000</u>		
		3,75,000		
	Less: Depreciation	<u>(37,500)</u>	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	<u>(12,500)</u>		
		37,500		
	Less: Depreciation	<u>(5,625)</u>	31,875	14,94,375
4. Intangible assets				
	Goodwill [WN 6]			30,000
5. Other non-current assets				
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		<u>3,75,000</u>	14,75,000

Working Notes:

1. Pre-acquisition profits and reserves of Vijay Ltd.	₹
Reserves	62,500
Profit and Loss Account	<u>37,500</u>
	<u>1,00,000</u>
Kedar Ltd.'s = $\frac{4}{5} \times 1,00,000$	80,000
Minority Interest = $\frac{1}{5} \times 1,00,000$	20,000
2. Profit on revaluation of assets of Vijay Ltd.	-
Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
Less: Loss on Furniture ₹ (50,000 – 37,500)	<u>12,500</u>
Net Profit on revaluation	<u>1,12,500</u>
Kedar Ltd.'s share $\frac{4}{5} \times 1,12,500$	90,000
Minority Interest $\frac{1}{5} \times 1,12,500$	22,500
3. Post-acquisition reserves of Vijay Ltd.	-
Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	<u>1,25,000</u>
Kedar Ltd.'s share $\frac{4}{5} \times 1,25,000$	1,00,000
Minority interest $\frac{1}{5} \times 25,000$	<u>25,000</u>

4. Post -acquisition profits of Vijay Ltd.	-
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 12,500 i.e. (50,000 – 37,500)	- <u>1,875</u>
	26,875
Less: Under depreciation on machinery @ 10% on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	- <u>(12,500)</u>
Adjusted post-acquisition profits	<u>14,375</u>
Kedar Ltd.'s share $\frac{4}{5} \times 14,375$	11,500
Minority Interest $\frac{1}{5} \times 14,375$	<u>2,875</u>
5. Minority Interest	-
Paid-up value of (2,500 – 2,000) = 500 shares held by outsiders i.e. $500 \times ₹ 100$	- 50,000
Add: $\frac{1}{5}$ th share of pre-acquisition profits and reserves	20,000
$\frac{1}{5}$ th share of profit on revaluation	22,500
$\frac{1}{5}$ th share of post-acquisition reserves	25,000
$\frac{1}{5}$ th share of post-acquisition profit	<u>2,875</u>
6. Cost of Control or Goodwill	<u>1,20,375</u>
Paid-up value of 2,000 shares held by Kedar Ltd. i.e. $2,000 \times ₹ 100$	2,00,000
Add: $\frac{4}{5}$ th share of pre-acquisition profits and reserves	80,000
$\frac{4}{5}$ th share of profit on the revaluation	<u>90,000</u>
Intrinsic value of shares on the date of acquisition	<u>3,70,000</u>
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	<u>(3,70,000)</u>
Cost of control or Goodwill	30,000

Profit & Loss Account

Question 18

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (₹ in lacs)	Sun Ltd. (₹ in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	<u>2,000</u>	<u>400</u>
	<u>12,000</u>	<u>2,400</u>
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	<u>200</u>	<u>100</u>
	<u>4,800</u>	<u>1,400</u>
Profit before tax	7,200	1,000
Provision for tax	<u>2,400</u>	<u>400</u>
Profit after tax	4,800	600
Dividend paid	<u>2,400</u>	<u>300</u>
Balance of Profit	<u>2,400</u>	<u>300</u>

Other Information:

Hello Ltd. sold goods to Sun Ltd. of ₹240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing ₹48 lacs. Administrative expenses of Sun Ltd. include ₹10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include ₹20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of ₹2,000 lacs in Sun Ltd. prior to 2015-2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017.

(RTP May 2018)

Answer:

**Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd.
for the year ended on 31st March, 2017**

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	11,730
II. Total revenue		11,730
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300
Depreciation and amortization expense	7	300
Other expenses	5	1,070
Total expenses		3,538
IV. Profit before Tax (II - III)		8,192
V. Tax Expenses	8	2,800
VI. Profit After Tax		5,392
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	300	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of ₹300 lacs	(240)	(2,460)
Profit to be transferred to consolidated balance sheet		2,932

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	(20)	11,730

		₹ in Lacs	₹ in Lacs
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	
	Less: Unrealized profits ₹48 lacs × $\frac{20}{120}$	(8)	2,392
			14,122
3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	400	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	(240)	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	600
			2,360
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	300	1,900
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	200	
		600	
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	
	Sun Ltd.	100	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	480
			1,070
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
7.	Depreciation and Amortization Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	100	300
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	400	2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

Question 19

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	1,200
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
	2,400	700
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of ₹120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹24 lacs. Administrative expenses of S Ltd. include ₹5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017.

(MTP March 2018) (12 Marks)

Answer:

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

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	5,865
II. Total revenue		5,865
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	535
Total expenses		1,769
IV. Profit before Tax (II-III)		4,096
V. Tax Expenses	8	1,400
VI. Profit After Tax		2,696
Profit transferred to Consolidated Balance Sheet		
Profit After Tax		2,696
Dividend paid		
H Ltd.	1,200	
S Ltd.	150	
	1,350	
Less: Share of H Ltd. in dividend of S Ltd.		
80% of ₹150 lacs	(120)	(1,230)
Profit to be transferred to consolidated balance sheet		1,466

Notes to Accounts

		₹ in lacs	₹ in lacs
1.	Revenue from Operations		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	<u>1,000</u>	
		6,000	
	Less: Inter-company Sales	(120)	
	Consultancy fees received by H Ltd. from S Ltd.	(5)	
	Commission received by S Ltd. from H Ltd.	<u>(10)</u>	
			5,865

		₹ in lacs	₹ in lacs
2.	Increase in Inventory		
	H Ltd.	1,000	
	S Ltd.	<u>200</u>	
		1,200	
	Less: Unrealized profits ₹24 lacs × 20/120	<u>(4)</u>	<u>1,196</u>
			<u>7,061</u>
3.	Cost of Material purchased/consumed		
	H Ltd.	800	
	S Ltd.	<u>200</u>	
		1,000	
	Less: Purchases by S Ltd. from H Ltd.	<u>(120)</u>	880
	Direct Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	<u>300</u>
			<u>1,180</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	H Ltd.	800	
	S Ltd.	<u>150</u>	950
5.	Other Expenses		
	Administrative Expenses		
	H Ltd.	200	
	S Ltd.	<u>100</u>	
		300	
	Less: Consultancy fees received by H Ltd. from S Ltd.	<u>(5)</u>	295
	Selling and Distribution Expenses:		
	H Ltd.	200	
	S Ltd.	<u>50</u>	
		250	
	Less: Commission received from S Ltd. from H Ltd.	<u>(10)</u>	240
			535
6.	Finance Cost		
	Interest:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	150
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	150

		₹ in lacs	₹ in lacs
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	<u>200</u>	1,400

Question 20

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below:

₹ in Lakhs		
Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	11
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225
Balance of Profit	1,800	225

The following information is also given:

- A Ltd sold goods of ₹180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)
- Administrative expenses of B Ltd include ₹8 Lakhs paid to A Ltd as consultancy fees.
- Selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.
- A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is ₹1,500 lakhs.

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.

(November 2018) (10 marks)

Answer:

**Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd.
for the year ended on 31st March, 2018**

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	8,797
II. Total revenue		8,797
III. Expenses		
Cost of Material purchased/Consumed	3	1,770
Changes of Inventories of finished goods	2	(1,794)
Employee benefit expense	4	1,425
Finance cost	6	225
Depreciation and amortization expense	7	225
Other expenses	5	802
Total expenses		2,653
IV. Profit before Tax(II-III)		6,144
V. Tax Expenses	8	2,100
VI. Profit After Tax		4,044

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	A Ltd.	7,500	
	B Ltd.	1,500	
		9,000	
	Less: Inter-company Sales	(180)	
	Consultancy fees received by A Ltd. from B Ltd.	(8)	
	Commission received by B Ltd. from A Ltd.	(15)	8,797
2.	Increase in Inventory		
	A Ltd.	1,500	
	B Ltd.	300	
		1,800	
	Less: Unrealised profits ₹180x1/6x25/125	(6)	1,794
3.	Cost of Material purchased/consumed		
	A Ltd.	1,200	
	B Ltd.	300	
		1,500	
	Less: Purchases by B Ltd. from A Ltd.	(180)	1,320
	Direct Expenses		
	A Ltd.	300	
	B Ltd.	150	450
			1,770

		₹ in Lacs	₹ in Lacs
4.	Employee benefits and expenses		
	Wages and Salaries:		
	A Ltd.	1,200	
	B Ltd.	225	1,425
5.	Other Expenses		
	Administrative Expenses		
	A Ltd.	300	
	B Ltd.	150	
		450	
	Less: Consultancy fees received by A Ltd. from B Ltd.	(8)	442
	Selling and Distribution Expenses:		
	A Ltd.	300	
	B Ltd.	75	
		375	
	Less: Commission received from B Ltd. from A Ltd.	(15)	360
			802
6.	Finance Cost		
	Interest:		
	A Ltd.	150	
	B Ltd.	75	225
7.	Depreciation and Amortisation		
	Depreciation:		
	A Ltd.	150	
	B Ltd.	75	225
8.	Provision for tax		
	A Ltd.	1800	
	B Ltd.	300	2100

Note: it is assumed that dividend adjustment has not be done in sales & other income of A Ltd i.e. dividend received from B Ltd is not included in other income of A Ltd. Alternative answer is possible considering is otherwise.

Question 21

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (₹ in lacs)	Sun Ltd. (₹ in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	<u>2,000</u>	<u>400</u>
	<u>12,000</u>	<u>2,400</u>

	Hello Ltd. (₹ in lacs)	Sun Ltd. (₹ in lacs)
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	<u>200</u>	<u>100</u>
	<u>4,800</u>	<u>1,400</u>
Profit before tax	7,200	1,000
Provision for tax	<u>2,400</u>	<u>400</u>
Profit after tax	4,800	600
Dividend paid	<u>2,400</u>	<u>300</u>
Balance of Profit	<u>2,400</u>	<u>300</u>

Other Information:

Hello Ltd. sold goods to Sun Ltd. of ₹240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing ₹48 lacs. Administrative expenses of Sun Ltd. include ₹10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include ₹20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of ₹2,000 lacs in Sun Ltd. prior to 2015 -2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year 2015 -2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017

(MTP August 2018) (16 Marks)

Answer:

**Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd.
for the year ended on 31st March, 2017**

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	<u>11,730</u>
II. Total revenue		<u>11,730</u>
III. Expenses		
Cost of Material purchased/Consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expense	4	1,900
Finance cost	6	300
Depreciation and amortization expense	7	300
Other expenses	5	<u>1,070</u>
Total expenses		<u>3,538</u>

Particulars	Note No.	₹ in Lacs
IV. Profit before Tax(II-III)		8,192
V. Tax Expenses	8	<u>2,800</u>
VI. Profit After Tax		<u>5,392</u>

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	<u>2,000</u>	
		12,000	
	Less: Inter-company Sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd. from Hello Ltd.	<u>(20)</u>	11,730
2.	Increase in Inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	<u>400</u>	
		2,400	
	Less: Unrealized profits ₹48 lacs × $\frac{20}{120}$	<u>(8)</u>	<u>2,392</u>
			<u>14,122</u>
3.	Cost of Material purchased/consumed		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>400</u>	
		2,000	
	Less: Purchases by Sun Ltd. from Hello Ltd.	<u>(240)</u>	1,760
	Direct Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	<u>600</u>
			<u>2,360</u>
4.	Employee benefits and expenses		
	Wages and Salaries:		
	Hello Ltd.	1,600	
	Sun Ltd.	<u>300</u>	<u>1,900</u>
5.	Other Expenses		
	Administrative Expenses		
	Hello Ltd.	400	
	Sun Ltd.	<u>200</u>	
		600	

		₹ in Lacs	₹ in Lacs
	Less: Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	590
	Selling and Distribution Expenses:		
	Hello Ltd.	400	
	Sun Ltd.	<u>100</u>	
		500	
	Less: Commission received from Sun Ltd. from Hello Ltd.	(20)	<u>480</u>
			<u>1,070</u>
6.	Finance Cost		
	Interest:		
	Hello Ltd.	200	
	Sun Ltd.	<u>100</u>	<u>300</u>
7.	Depreciation and Amortization		
	Depreciation:		
	Hello Ltd.	200	
	Sun Ltd.	<u>100</u>	<u>300</u>
8.	Provision for tax		
	Hello Ltd.	2,400	
	Sun Ltd.	<u>400</u>	<u>2,800</u>

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-2016 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

Question 22

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	<u>1,000</u>	<u>200</u>
	<u>6,000</u>	<u>1,200</u>
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	<u>100</u>	<u>50</u>
	<u>2,400</u>	<u>700</u>

	H Ltd. (₹ in lacs)	S Ltd. (₹ in lacs)
Profit before tax	3,600	500
Provision for tax	<u>1,200</u>	<u>200</u>
Profit after tax	2,400	300
Dividend paid	<u>1,200</u>	<u>150</u>
Balance of Profit	<u>1,200</u>	<u>150</u>

Other Information:

H Ltd. sold goods to S Ltd. of ₹120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing ₹24 lacs. Administrative expenses of S Ltd. include ₹5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include ₹10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of ₹1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

You are required to prepare a consolidated profit and loss account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March, 2017 .

(MTP October 2018) (12 Marks)

Answer:

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

Particulars	Note No.	₹ in Lacs
I. Revenue from operations	1	<u>5,865</u>
II. Total revenue		<u>5,865</u>
III. Expenses		
Cost of Material purchased/Consumed	3	1,180
Changes of Inventories of finished goods	2	(1,196)
Employee benefit expense	4	950
Finance cost	6	150
Depreciation and amortization expense	7	150
Other expenses	5	<u>535</u>
Total expenses		<u>1,769</u>
IV. Profit before Tax(II-III)		4,096
V. Tax Expenses	8	<u>1,400</u>
VI. Profit After Tax		<u>2,696</u>

Notes to Accounts

		₹ in Lacs	₹ in Lacs
1.	Revenue from Operations		
	Sales and other income		
	H Ltd.	5,000	
	S Ltd.	<u>1,000</u>	
		6,000	

		₹ in Lacs	₹ in Lacs
7.	Depreciation and Amortisation		
	Depreciation:		
	H Ltd.	100	
	S Ltd.	<u>50</u>	<u>150</u>
8.	Provision for tax		
	H Ltd.	1,200	
	S. Ltd.	<u>200</u>	<u>1,400</u>

Note: Since the amount of dividend received by H Ltd. for the year 2015-16 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings (which is also not given).

Chapter 4

Non-Banking Financial Companies

Question 1

Babu Bhai Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2018:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(₹ in crore)	(₹ in crore)
LCD Televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

You are required to calculate the amount of provision to be made.

(May 2019) (5 Marks)

Answer:

On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

		(₹ in crore)
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500

		(₹ in crore)
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 100)	100
	Total	1,220

Question 2

ABC Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ending 31st March, 2017:

Assets Funded	Interest Overdue but recognised in Profit & Loss		Net book value of Assets outstanding
	Paid Overdue	Interest (₹ in lakhs)	(₹ in lakhs)
Computers	Upto 12 months	960.00	40,812.00
Televisions	For 20 months	205.00	4,950.00
Washing Machines	For 32 months	104.20	2,530.00
Refrigerators	For 45 months	53.50	1328.00
Air-conditioners	For 52 months	13.85	305.00

You are required to calculate the amount of provision to be made.

(May 2018) (5 Marks)

Answer:

Amount of provision to be made is as under:

Asset Funded	(₹ in crore)		
Computers	(a) Where hire charges are overdue upto 12 months	Nil	-
Televisions	(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 4,950	495
Washing Machines	(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 2,530	1,012
Refrigerators	(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 1,328	929.60

Asset Funded	(₹ in crore)		
Air Conditioners	(e) where hire charges or lease rentals are overdue for more than 48 months	100 percent of the net book value 305x 100%	305
		Total	2,741.60

Question 3

While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	53,600
Sub-standard assets	2,680
Secured portions of doubtful debts:	
— up to one year	640
— one year to three years	180
— more than three years	60
Unsecured portions of doubtful debts	194
Loss assets	96

Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

(RTP May 2018)

Answer:

Calculation of provision required on advances as on 31st March, 2017:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	53,600	.25	134.00
Sub-standard assets	2,680	10	268.00
Secured portions of doubtful debts			
- up to one year	640	20	128.00
- one year to three years	180	30	54.00
- more than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss assets	96	100	96.00
			904.00

Question 4

Explain "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

(MTP March 2018) (5 Marks)

Answer:

'Non-performing asset' means:

- (a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
- (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
- (d) a bill which remains overdue for a period of six months or more;
- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

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

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

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

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

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

Question 5

"Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

(MTP April 2018) (5 Marks)

Answer:

'Non-performing asset' means:

- (a) an asset, in respect of which, interest has remained overdue for a period of six months or more;
- (b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;
- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

- (d) a bill which remains overdue for a period of six months or more;
- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

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

It implies that as per Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, the criteria is 6 months only.

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

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

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

Provided that in the case of lease and hire purchase transactions, a non-banking financial company may classify each such account on the basis of its record of recovery;

Question 6

While closing its books of accounts on 31st March 2018, a Non-Banking Finance Company has its advances classified as follows:

	₹(in lakhs)
Standard assets	18,400
Sub-standard assets	1,250
Secured Portion of doubtful debts:	
Upto one year	300
One year to three years	90
More than three years	30
Unsecured portions of doubtful debts	92
Loss assets	47

Calculate the amount of provision which must be made against the Advances as per—

- (i) The Non-banking Financial Company - Non-systematically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and
- (ii) Non-banking Financial Company - Systematically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

(November 2018) (10 marks)

Answer:

Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company - Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	18,400	0.25	46.00
Sub-standard assets	1,250	10	125.00
Secured portions of doubtful debts—			
- upto one year	300	20	60.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	92	100	92.00
Loss assets	47	100	47.00
			412.00

Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	18,400	0.40*	73.60
Sub-standard assets	1,250	10	125.00
Secured portions of doubtful debts—			
- upto one year	300	20	60.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	92	100	92.00
Loss assets	47	100	47.00
			439.60

*Note: For the year ending on 31st March, 2018, the provision rate for standard assets is 0.40%.

Question 7

Lokraj Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

	Interest Overdue but recognized in		Net Book Value of
Asset Funded	Profit & loss A/c		Assets outstanding
	Period Overdue	Interest Amount	
		(₹ in crore)	(₹ in crore)
Washing Machines	Upto 12 months	450.00	20,550.00
Air Conditioners	For 24 months	25.25	675.00
Music systems	For 30 months	15.25	225.00

		(₹ in crore)	(₹ in crore)
Refrigerators	For 21 months	60.15	1,050.00
Air purifiers	Upto 12 months	18.25	980.00
LCD Televisions	For 45 months	420.00	21,200.00

You are required to calculate the amount of additional provision to be made. Mutual Funds
(RTP November 2018)

Answer:

On the basis of the information given, in respect of hire purchase and leased assets, additional provision shall be made as under:

(₹ in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value $10\% \times (675+1,050)$	172.50
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value $40\% \times 225$	90
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value $70\% \times 21,200$	14,840
	Total	15,102.50

Question 8

Write short note on earning value (equity share) in context of NBFC.

(MTP October 2018) (5 Marks)

Answer:

Earning value means the value of an equity share computed by taking the average of profits after tax as reduced by the preference dividend and adjusted for extra-ordinary and non-recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalized at the following rate:

- (a) in case of predominantly manufacturing company, eight per cent;
- (b) in case of predominantly trading company, ten per cent; and
- (c) in case of any other company, including non -banking financial company, twelve per cent; Note: If an investee company is a loss making company the earning value will be taken at zero.

Question 9

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

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

(RTP May, 2019)

Answer:

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

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

Question 10

Explain "Non-Performing Assets" as per NBFC Prudential Norms (RBI) directions.

(MTP-March 2019) (5 Marks)

Answer:

'Non-performing asset' means:

- an asset, in respect of which, interest has remained overdue for a period of six months or more;
- a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

- (c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;
- (d) a bill which remains overdue for a period of six months or more;
- (e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;
- (f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

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

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

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

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

Question 11

While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	13,400
Sub-standard assets	670
Secured portions of doubtful debts:	
- Up to one year	160
- one year to three years	45
- more than three years	20
Unsecured portions of doubtful debts	48
Loss assets	24

You are required to Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company –Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

(RTP November 2019)

Answer:

Calculation of provision required on advances as on 31st March, 2018:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
- up to one year	160	20	32
- one year to three years	45	30	13.5
- more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	24
			<u>851.10</u>

Question 12

Explain the criterion of income recognition in the case of Non Banking Financial Companies
(November 2019, New Course, 5 Marks)

Answer

Income Recognition in case of NBFC

- (1) The income recognition shall be based on recognised accounting principles.
- (2) Income including interest/ discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.
- (3) In respect of hire purchase assets, where instalments are overdue for more than 12 months, income shall be recognised only when hire charges are actually received. Any such income taken to the credit of profit and loss account before the asset became nonperforming and remaining unrealized, shall be reversed.
- (4) In respect of lease assets, where lease rentals are overdue for more than 12 months, the income shall be recognised only when lease rentals are actually received. The net lease rentals* taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

**'Net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV of the Companies Act, 1956 (1 of 1956)/ 2013.*

Question 13

Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	
Deposits	400	group companies	100

Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
		In debentures of subsidiaries and group Companies	100
		Cash and bank balances	200
		Deferred expenditure	200
	1,400		1,400

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

[MTP October, 2019, 5 Marks]

Answer

Statement showing computation of 'Net Owned Fund'

		₹ in 000
Paid up Equity Capital		100
Free Reserves		500
		600
Less: Deferred expenditure		(200)
	A	400
Investments		
In shares of subsidiaries and group companies		100
In debentures of subsidiaries and group companies		100
	B	200
10% of A		40
Excess of Investment over 10% of A (200-40)	C	160
Net Owned Fund [(A) - (C)] (400-160)		240

Question 14

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

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

(May 2020)

Answer

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

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

Amalgamation

Question 1

Distinguish between Amalgamation Absorption and External Reconstruction of Company.

(May 2019) (5 Marks)

Answer:

Difference between Amalgamation, Absorption and External Reconstruction

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 and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise 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.

Question 2

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹10 each	30,00,000	9,00,000
9% Preference Shares of ₹100 each	3,00,000	-
10% Preference Shares of ₹100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	40,50,000	17,10,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	40,50,000	17,10,000

X Ltd. absorbs Y Ltd. on the following terms:

- (i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- (ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17: ₹90,000; 2015-16: ₹78,000 and 2014-15: ₹72,000). The profits of 2014 -15 included credit of an insurance claim of ₹25,000 (fire occurred in 2013-14 and loss by fire ₹30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to ₹10,000.
- (iii) Land & Buildings are valued at ₹5,00,000 and the Plant & Machinery at ₹4,00,000.
- (iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
- (v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹15,000 and such asset was also taken over by X Ltd.
- (vi) The trade payables of Y Ltd. included ₹20,000 payable to X Ltd.
- (vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

- (i) Prepare Realisation A/c in the books of Y Ltd.
- (ii) Show journal entries in the books of X Ltd.
- (iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

(May 2018) (20 Marks)

Answer:

**In the Books of Y Ltd.
Realisation Account**

	₹			₹
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase Consideration)	15,90,000
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realisation)		1,50,000		
		18,90,000		18,90,000

**In the Books of X Ltd.
Journal Entries**

	Dr.	Cr.
	₹	₹
Business Purchase A/c Dr. 15,90,000 To Liquidators of Y Ltd. Account (Being business of Y Ltd. taken over)		15,90,000
Goodwill Account Dr. 1,50,000	1,50,000	
Land & Building Account Dr. 5,00,000	5,00,000	
Plant & Machinery Account Dr. 4,00,000	4,00,000	
Inventory Account Dr. 4,72,500	4,72,500	
Trade receivables Account Dr. 3,00,000	3,00,000	
Bank Account Dr. 60,000	60,000	
Unrecorded assets Account Dr. 15,000	15,000	
To Retirement Gratuity Fund Account		60,000
To Trade payables Account		2,40,000
To Provision for Doubtful Debts Account		7,500
To Business Purchase A/c		15,90,000
(Being Assets and Liabilities taken over as per agreed valuation).		

	Dr.	Cr.
	₹	₹
Liquidators of Y Ltd. A/c Dr.	15,90,000	
To 9% Preference Share Capital A/c		3,30,000
To Equity Share Capital A/c		12,00,000
To Securities Premium A/c		60,000
(Being Purchase Consideration satisfied as above).		

**Balance Sheet of X Ltd. (after absorption)
as at 31st March, 2018**

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
A Share capital	1	48,30,000
B Reserves and Surplus	2	2,70,000
2 Non-current liabilities		
A Long-term provisions	3	2,10,000
3 Current liabilities		
A Trade Payables	4	6,10,000
B Short term provision	5	7,500
Total		59,27,500
Assets		
1 Non-current assets		
A Fixed assets		
Tangible assets	6	33,00,000
Intangible assets	7	3,00,000
2 Current assets		
A Inventories	8	12,22,500
B Trade receivables	9	8,80,000
C Other current Assets	10	15,000
D Cash and cash equivalents	11	2,10,000
Total		59,27,500

Notes to accounts

	₹
1 Share Capital	
Equity share capital	
4,20,000 Equity Shares of ₹10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000

	₹
Preference share capital	
6,300 9% Preference Shares of ₹100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
Total	48,30,000
2. Reserves and Surplus	
Securities Premium	60,000
General Reserve	2,10,000
Total	2,70,000
3. Long-term provisions	
Retirement Gratuity fund	2,10,000
4. Trade payables	
(3,90,000 + 2,40,000 - 20,000*)	6,10,000
* Mutual Owings eliminated.	
5. Short term Provisions	
Provision for Doubtful Debts	7,500
6. Tangible assets	
Land & Buildings	14,00,000
Plant & Machinery	19,00,000
Total	33,00,000
7. Intangible assets	
Goodwill (1,50,000 + 1,50,000)	3,00,000
8. Inventories (7,50,000 + 4,72,500)	12,22,500
9. Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10. Other current Assets	15,000
11. Cash and cash equivalents (1,50,000 + 60,000)	2,10,000

Working Notes:**1. Computation of goodwill**

	₹
Profit of 2016-17	90,000
Profit of 2015-16 adjusted ₹78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (₹72,000 - 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹75,000 x 2 = ₹1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		15,90,000

Question 3

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
<u>Equity & liabilities:</u>			<u>Assets:</u>		
<u>Shareholders Fund</u>			<u>Non-current Assets:</u>		
(a) Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
(b) Reserves	10,20,000	6,00,000	<u>Current Assets</u>		

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
<u>Current Liabilities</u>			(a) Inventories	3,60,000	6,60,000
Bank Overdraft	—	5,40,000	(b) Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	(c) Cash at Bank	3,00,000	—
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹3,00,000; 2015-16 ₹5,25,000 and 2016-17 ₹6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

- Calculate the number of shares issued to P Ltd. and Q Ltd; and
- Prepare required journal entries in the books of PQ Ltd.; and
- Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

(RTP May 2018)

Answer:

- Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	₹
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000
Share of P Ltd.	= ₹14,40,000 × [21,60,000/(21,60,000 + 14,40,000)]
	= ₹8,64,000 or 86,400 shares
Securities premium	= ₹21,60,000 - ₹8,64,000 = ₹12,96,000
Premium per share	= ₹12,96,000/₹86,400 = ₹15
Issued 86,400 shares	@ ₹10 each at a premium of ₹15 per share
Share of Q Ltd.	= ₹14,40,000 × [14,40,000/(21,60,000 + 14,40,000)]
	= ₹5,76,000 or 57,600 shares
Securities premium	= ₹14,40,000 - ₹5,76,000 = ₹8,64,000
Premium per share	= ₹8,64,000/₹57,600 = ₹15
Issued 57,600 shares	@ ₹10 each at a premium of ₹15 per share

(ii) Journal Entries in the books of PQ Ltd.

		Dr.	Cr.
Particulars		Amount (₹)	Amount (₹)
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹10)			8,64,000
To Securities premium (86,400 x ₹15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹10)			5,76,000
To Securities premium (57,600 x ₹15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c	Dr.	18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	(a) Share capital	1	21,60,000
	(b) Reserves and Surplus	2	32,40,000
2	Current liabilities		
	(a) Trade payables (2,40,000 + 5,40,000)		<u>7,80,000</u>
	Total		<u>61,80,000</u>
	Assets		
1	(a) Non-current assets Fixed assets		
	Tangible assets (7,20,000 + 10,80,000)		18,00,000
	Intangible assets (goodwill)	4	5,40,000
2	Current assets		
	(a) Inventories (3,60,000 + 6,60,000)		10,20,000
	(b) Trade receivables (4,80,000 + 7,80,000)		12,60,000
	c Cash and cash equivalents	3	15,60,000
	Total		61,80,000

Notes to accounts

	₹
1 Share Capital	
Issued, subscribed and paid up share capital 2,16,000 Equity shares of ₹10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)	21,60,000
2 Reserves and Surplus	
Securities premium (@ ₹15 for 2,16,000 shares)	32,40,000
3 Cash and cash equivalents	
Cash at Bank	15,60,000
4 Intangible Assets	
Goodwill	5,40,000

Working Notes:**1. Calculation of goodwill of P Ltd.**

Particulars	Amount ₹	Weight	Weighted amount ₹
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	<u>6,30,000</u>	3	<u>18,90,000</u>
Total (a + b + c)	<u>14,55,000</u>	6	<u>32,40,000</u>
weighted Average = [Total weighted amount/Total of weight]			
[₹32,40,000/6]			
Goodwill			5,40,000

2. Calculation of Net assets

	P Ltd. ₹	Q Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	<u>2,40,000</u>	<u>5,40,000</u>
Net assets or Purchase consideration	<u>21,60,000</u>	<u>14,40,000</u>

3. New authorized capital

$$= ₹14,40,000 + ₹12,00,000 = ₹26,40,000$$

4. Cash and Cash equivalents

P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X ₹25)	<u>18,00,000</u>
Less: Bank Overdraft	21,00,000
	<u>5,40,000</u>
	<u>15,60,000*</u>

* The balance of cash and cash equivalents has been shown after setting off overdraft amount.

Question 4

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2017:

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹25,000.

(MTP April 2018) (4 Marks)

Answer:

Calculation of Purchase Consideration under Net Assets Method

	₹	₹
Sundry assets		
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	1,40,000	
Bank overdraft	50,000	
Unrecorded liability	25,000	(4,15,000)
Purchase consideration		15,11,000

Question 5

On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

- Issued 50,000 fully paid Equity shares of ₹10 each at a premium of ₹5 per share to the equity shareholders of Rina Ltd.
- Cash payment of ₹50,000 was made to equity shareholders of Rina Ltd.
- Issued 2,000 fully paid 12% Preference shares of ₹100 each at par to discharge the preference shareholders of Rina Ltd.
- Debentures of Rina Ltd. 20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

(November 2018) (5 marks)

Answer:

Particulars	₹
Equity Shares (50,000x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	<u>2,00,000</u>
Purchase Consideration	<u>10,00,000</u>

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

**Journal entry relating to discharge of consideration
in the books of Tina Ltd.**

	₹	₹
Liquidation of Rina Ltd. A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

Question 6

The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	Alex Ltd. (₹)	Beta Ltd. (₹)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	<u>37,80,000</u>	<u>15,96,000</u>
Liabilities	Alex Ltd.(₹)	Beta Ltd.(₹)
Share Capital:		
Equity Shares of ₹10 each	28,00,000	8,40,000
8% Preference Shares of ₹100 each	2,80,000	-
10% Preference Shares of ₹100 each	-	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	<u>37,80,000</u>	<u>15,96,000</u>

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.
- Goodwill of Beta Ltd. is valued at ₹1,40,000, Buildings are valued at ₹4,20,000 and the Machinery at ₹4,48,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

- Prepare necessary Ledger Accounts to close the books of Beta Ltd.
- Prepare the acquisition entries in the books of Alex Ltd.
- Also prepare the Balance Sheet after absorption as at 31st March, 2017. Internal Reconstruction of a Company

(RTP November 2018)

Answer:

(a) In the Books of Beta Ltd.

Realisation Account

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

Equity Shareholders Account

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

Preference Share Account

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

Alex Ltd. Account

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

(b) In the Books of Alex Ltd.**Journal Entries**

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

(c) Balance Sheet of Alex Ltd. (after absorption) as at 31st March, 2017

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
A Share capital	1	45,08,000
B Reserves and Surplus	2	2,52,000
2 Non-current liabilities		
A Long-term provisions		1,96,000

Particulars	Notes	₹
3 Current liabilities		
A Trade Payables		5,88,000
B Short term provision		21,000
Total		55,65,000
Assets		
1 Non-current assets		
A Fixed assets		
Tangible assets	3	31,08,000
Intangible assets		2,80,000
2 Current assets		
A Inventories		11,41,000
B Trade receivables		8,40,000
C Cash and cash equivalents		1,96,000
Total		55,65,000

Notes to accounts:

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

Working Notes:

Purchase Consideration:	₹
Goodwill	1,40,000
Building	4,20,000
Machinery	4,48,000
Inventory	4,41,000

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

Question 7

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹10 each)	15,000	6,000
Securities Premium	3,000	—
Foreign Project Reserve	—	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	—	1,000
Trade payables	1,200	463
Provisions	<u>1,830</u>	<u>702</u>
	<u>33,400</u>	<u>12,500</u>
Land and Buildings	6,000	—
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	<u>33,400</u>	<u>12,500</u>

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity 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.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	<u>—</u>	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd.

You are required to:

- Prepare journal entries in the books of P Ltd. and
- Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(MTP August 2018) (15 Marks)

Answer:

**Books of P Ltd.
Journal Entries**

	<i>Dr.</i> (₹ in Lacs)	<i>Cr.</i> (₹ in Lacs)
Business Purchase A/c	Dr. 9,000	
To Liquidator of V Ltd.		9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)		
Plant and Machinery	Dr. 5,000	
Furniture & Fittings	Dr. 1,700	
Inventory	Dr. 4,041	
Debtors	Dr. ,020	
Cash at Bank	Dr. 609	
Bills Receivable	Dr. 80	
To Foreign Project Reserve		310
To General Reserve (3,200 - 3,000)		200
To Profit and Loss A/c (825 - 50*)		775
To Liability for 12% Debentures		1,000
To Creditors		463
To Provisions		702
To Business Purchase		9,000
(Being assets & liabilities taken over from V Ltd.)		

	Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Liquidator of V Ltd. A/c	Dr. 9,000	
To Equity Share Capital A/c		9,000
(Purchase consideration discharged in the form of equity shares)		
Profit & loss A/c	Dr. 1	
To Bank A/c		1
(Liquidation expenses paid by P Ltd.)		
Liability for 12% Debentures A/c	Dr. 1,000	
To 13% Debentures A/c		1,000
(12% debentures discharged by issue of 13% debentures)		
Bills Payable A/c	Dr. 80	
To Bills Receivable A/c		80
(Cancellation of mutual owing on account of bills)		

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

	Particulars	Notes	₹(in lakhs)
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	24,000
B	Reserves and Surplus	2	16,654
2	Non-current liabilities		
A	Long-term borrowings	3	1,000
3	Current liabilities		
A	Trade Payables (1,543 + 40)		1,583
B	Short-term provisions		2,532
	Total		45,769
	Assets		
1	Non-current assets		
A	Fixed assets		
	Tangible assets	4	29,004
2	Current assets		
A	Inventories		11,903
B	Trade receivables		3,140
C	Cash and cash equivalents		1,722
	Total		45,769

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Authorised, issued, subscribed and paid up		
24 crores equity shares of ₹10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)		24,000
Total		<u>24,000</u>
2. Reserves and Surplus		
General Reserve		9,700
Securities Premium		3,000
Foreign Project Reserve		310
Profit and Loss Account		<u>3,644</u>
Total		<u>16,654</u>
3. Long-term borrowings		
Secured		
13% Debentures		1,000
4. Tangible assets		
Land & Buildings		6,000
Plant & Machinery		19,000
Furniture & Fittings		<u>4,004</u>
Total		<u>29,004</u>

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

$$\text{Purchase consideration} = ₹6,000 \text{ lacs} \times \frac{3}{2} = ₹9,000 \text{ lacs.}$$

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

Question 8

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016 Their summarized Balance Sheets as on 31.03.2016 were as follows: (₹ in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	70	60
Profit and Loss Account	8	12

Particulars	P Ltd.	Q Ltd.
10% Debentures	100	60
Trade Payables	50	30
Tax provision	<u>14</u>	<u>8</u>
Total	<u>602</u>	<u>490</u>
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	<u>80</u>	<u>50</u>
Total	<u>602</u>	<u>490</u>

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- (i) 50% Debenture are to be converted into Equity Shares of the New Company.
- (ii) Investments are non- current in nature.
- (iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
- (iv) 10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
- (v) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
- (vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

(MTP October 2018) (15 Marks)

Answer:

M/s R Ltd.

Balance Sheet as at 1.4.2016

	Particulars	Notes	₹ in'000
1	Equity and Liabilities		
	Shareholders' funds		
a	Share capital	1	6,55,980
b	Reserves and Surplus	2	2,77,990
2	Non-current liabilities		
a	Long-term borrowings	3	80,000
3	Current liabilities		
a	Trade Payables	4	80,000
b	Short term provision	5	<u>22,000</u>
	Total		<u>11,15,970</u>

		Particulars	Notes	₹ in'000
1		Assets		
		Non-current assets		
	a	Fixed assets		
		Tangible assets	6	5,60,000
	b	Non-current investments	7	1,30,000
2		Current assets		
	a	Inventory	8	1,52,000
	b	Trade receivables	9	1,44,000
	c	Cash and cash equivalents	10	1,29,970
		Total		<u>11,15,970</u>

Notes to accounts

	₹ in'000
1. Share Capital	
Equity share capital	
55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
Preference share capital	
9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
	<u>6,55,980</u>
2. Reserves and Surplus	
Securities premium (W.N.2)	2,77,990
Investment allowance reserve	
(₹70,000+ ₹60,000)	1,30,000
Amalgamation adjustment reserve	(1,30,000)
	<u>2,77,990</u>
3. Long-term borrowings	
Secured	
10% Debentures (50% of ₹1,60,000)	80,000
4. Trade Payables (₹50,000+ ₹30,000)	80,000
5. Short term provisions	
Provision for tax (₹14,000+ ₹8,000)	22,000
6. Tangible assets	
Building (₹1,32,000+₹1,05,000)	2,37,000
Plant and machinery (₹1,76,000+₹1,47,000)	<u>3,23,000</u>
	<u>5,60,000</u>
7. Non – current Investments (₹80,000+ ₹50,000)	1,30,000
8. Inventory	
Stock (₹72,000+ ₹80,000)	1,52,000
9. Trade receivables	
Trade receivables (90% of (₹90,000+ ₹70,000)	1,44,000
10. Cash and cash equivalents	
Cash and Bank (₹80,000+ ₹50,000 – ₹30)	1,29,970

Working Notes:**1. Calculation of value of equity shares issued to transferor companies**

		<i>P Ltd.</i>		<i>Q Ltd.</i>
		(₹)		(₹)
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		<u>80,000</u>		<u>50,000</u>
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	<u>14,000</u>	<u>1,64,000</u>	<u>8,000</u>	<u>98,000</u>
		4,57,000		3,97,000
Less: Preference Share Capital		<u>60,000</u>		<u>40,000</u>
		<u>3,97,000</u>		<u>3,57,000</u>

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	<i>P Ltd.</i>	<i>Q Ltd.</i>	<i>Total</i>
Equity shares issued @ ₹15 per share (including ₹5 premium)			
₹3,97,000/15	26,466 shares ¹		
₹3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	<u>₹1,32,330</u>	<u>₹1,19,000</u>	<u>₹2,51,330</u>
	<u>₹3,96,990</u>	<u>₹3,57,000</u>	<u>₹7,53,990</u>
<i>50% of Debentures are converted into equity shares @ ₹15 per share</i>			
1,00,000/2 = 50,000/15	3,332 shares ²		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	₹33,320	₹20,000	₹53,320
Security premium @ ₹5	<u>₹16,660</u>	<u>₹10,000</u>	<u>₹26,660</u>
	<u>₹49,980</u>	<u>₹30,000</u>	<u>₹79,980</u>
9% Preference share capital issued	₹60,000	₹40,000	₹1,00,000

1 Cash paid for fraction of shares = ₹3,97,000 less ₹3,96,990 = ₹10

2 Cash paid for fraction of shares = ₹50,000 less ₹49,980 = ₹20

Question 9

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018. Their summarized Balance Sheets as on 31.03.2018 were as follows:

(₹ in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (₹10 each)	300	280
9% preference share Capital (₹100 each)	60	40
Investment allowance Reserve	10	4
Profit and Loss Account	68	68
10% Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70
Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- 50% Debenture are to be converted into Equity Shares of the New Company.
- Investments are non-current in nature.
- Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
- 10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
- Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
- Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹10 each of the new company at a premium of ₹5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

(RTP May, 2019)

Answer

M/s R Ltd.
Balance Sheet as at 1.4.2018

	Particulars	Notes	₹ in '000
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	6,55,980
b	Reserves and Surplus	2	2,77,990
2	Non-current liabilities		
a	Long-term borrowings	3	80,000
3	Current liabilities		
a	Trade Payables	4	80,000
b	Short term provision	5	22,000
	Total		11,15,970
	Assets		
1	Non-current assets		
a	Property, Plants Equipment		
	Tangible assets	6	5,60,000
b	Non-current investments	7	1,30,000
2	Current assets		
a	Inventory	8	1,52,000
b	Trade receivables	9	1,44,000
c	Cash and cash equivalents	10	1,29,970
	Total		11,15,970

Notes to accounts

	₹ in '000
1. Share Capital	
Equity share capital	
55,598 Equity shares of ₹10 each, fully paid up (W.N.2)	5,55,980
Preference share capital	
9% Preference share capital (Share of ₹100 each) (W.N.2)	1,00,000
	6,55,980
2. Reserves and Surplus	
Securities premium (W.N.2)	2,77,990
Investment allowance reserve	14,000
(₹10,000+ ₹4,000)	
Amalgamation adjustment reserve	(14,000)
	2,77,990

	₹ in '000
3. Long-term borrowings	
Secured	
10% Debentures (50% of ₹1,60,000)	80,000
4. Trade Payables (₹50,000 + ₹30,000)	80,000
5. Short term provisions	
Provision for tax (₹14,000 + ₹8,000)	22,000
6. Tangible assets	
Building (₹1,32,000 + ₹1,05,000)	2,37,000
Plant and machinery (₹1,76,000 + ₹1,47,000)	3,23,000
	5,60,000
7. Non-current Investments (₹80,000 + ₹50,000)	1,30,000
8. Inventory	
Stock (₹72,000 + ₹80,000)	1,52,000
9. Trade receivables	
Trade receivables (90% of (₹90,000 + ₹70,000))	1,44,000
10. Cash and cash equivalents	
Cash and Bank (₹80,000 + ₹50,000 - ₹30)	1,29,970

Working Notes:**1. Calculation of value of equity shares issued to transferor companies**

		P Ltd. (₹)		Q Ltd. (₹)
Assets taken over:				
Building		1,32,000		1,05,000
Plant and machinery		1,76,000		1,47,000
Investments		80,000		50,000
Inventories		72,000		80,000
Trade receivables		81,000		63,000
Cash & Bank		80,000		50,000
		6,21,000		4,95,000
Less: Liabilities:				
10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	<i>P Ltd.</i>	<i>Q Ltd.</i>	<i>Total</i>
Equity shares issued @ ₹15 per share (including ₹5 premium) ₹3,97,000/15	26,466 shares ³		
₹3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ ₹10	₹2,64,660	₹2,38,000	₹5,02,660
Securities premium @ ₹5	₹1,32,330	₹1,19,000	₹2,51,330
	₹3,96,990	₹3,57,000	₹7,53,990
<i>50% of Debentures are converted into equity shares @ ₹15 per share</i>			
1,00,000/2 = 50,000/15	3,332 shares ⁴		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ ₹10	733,320	720,000	753,320
Security premium @ ₹5	716,660	710,000	726,660
	749,980	730,000	7 79,980
9% Preference share capital issued	760,000	₹40,000	71,00,000

Question 10

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹10 each)	15,000	6,000
Securities Premium	3,000	-
Foreign Project Reserve	-	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	-	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

3 Cash paid for fraction of shares = ₹3,97,000 less ₹3,96,990 = 710.

4 Cash paid for fraction of shares = ₹50,000 less ₹49,980 = 720.

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	-
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	<u>33,400</u>	<u>12,500</u>

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity 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.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	=	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd. You are required to:

- Prepare journal entries in the books of P Ltd. and
- Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

(MTP-April 2019) (15 Marks)

Answer:

**Books of P Ltd.
Journal Entries**

	Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Business Purchase A/c	Dr. 9,000	
To Liquidator of V Ltd.		9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)		

		Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 - 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profits loss A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures At			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

Particulars	Notes	₹(in lakhs)
Equity and Liabilities		
1 Shareholders' funds		
A Share capital	1	24,000
B Reserves and Surplus	2	16,654
2 Non-current liabilities		
A Long-term borrowings	3	1,000

Particulars		Notes	₹(in lakhs)
Equity and Liabilities			
3	Current liabilities		
	A Trade Payables (1,543+ 40)		1,583
	B Short-term provisions		2,532
	Total		45,769
	Assets		
1	A Non-current assets		
	Fixed assets		
	Tangible assets	4	29,004
2	Current assets		
	A Inventories		11,903
	B Trade receivables		3,140
	C Cash and cash equivalents		1,722
	Total		45,769

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorised, issued, subscribed and paid up	
24 crores equity shares of ₹10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
Total	24,000
2. Reserves and Surplus	
General Reserve	9,700
Securities Premium	3,000
Foreign Project Reserve	310
Profit and Loss Account	3,644
Total	16,654
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Tangible assets	
Land & Buildings	6,000
Plant & Machinery	19,000
Furnitures Fittings	4,004
Total	29,004

Working Note:**Computation of purchase consideration**

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = ₹6,000 lacs $\frac{3}{2}$ = ₹9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

Question 11

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
<u>Equity and Liabilities</u>		
Equity Shares of ₹10 each	12,00,000	6,00,000
10% pref. Shares of ₹100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
<u>Assets</u>		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bill Payable	60,000	50,000
	5,00,000	3,00,000

- Fixed Assets of both the companies are to be revalued at 15% above book value.
- Inventory in Trade and Debtors are taken over 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, VT Ltd. will absorb MG Ltd. on the following terms:

- VT Ltd. will issue 16 Equity Shares of ₹10 each at par against 12 Shares of MG Ltd.
- 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹100 each at par in VT Ltd.

- (iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium by 12% Debentures in VT Ltd. issued at a discount of 10%.
- (iv) ₹60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes ₹20,000 due from VT Ltd.

You are required to prepare:

- (1) Journal entries in the books of VT Ltd.
- (2) Statement of consideration payable by VT Ltd.

(May 2019) (10 Marks)

Answer:

(i) Journal Entries in the Books of VT Ltd.

		Dr. ₹	Cr. ₹
Fixed Assets To Revaluation Reserve (Revaluation of fixed assets at 15% above book value)	Dr.	2,10,000	2,10,000
Reserve and Surplus To Equity Dividend (Declaration of equity dividend @ 10%)	Dr.	1,20,000	1,20,000
Equity Dividend To Bank Account (Payment of equity dividend)	Dr.	1,20,000	1,20,000
Business Purchase Account To Liquidator of MG Ltd. (Consideration payable for the business taken over from MG Ltd.)	Dr.	9,80,000	9,80,000
Fixed Assets (115% of ₹5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹80,000 – ₹60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹3,60,000)			18,000
To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			

		Dr. ₹	Cr. ₹
Liquidator of MG Ltd. To Equity Share Capital To 10% Preference Share Capital (Discharge of consideration for MG Ltd.'s business)	Dr.	9,80,000	8,00,000 1,80,000
12% Debentures in MG Ltd. (₹3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures To 12% Debentures (Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)	Dr.	36,000	3,60,000
Sundry Creditors To Sundry Debtors (Cancellation of mutual owing)	Dr.	20,000	20,000
Goodwill To Bank (Being liquidation expenses reimbursed to MG Ltd.)	Dr.	60,000	60,000
Capital Reserve/P&L A/c To Goodwill (Being goodwill set off)	Dr.	60,000	60,000

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted $60,000/12 \times 16 = 80,000$ shares of VT Ltd.

Issued 80,000 shares of ₹10 each i.e. ₹8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹2,00,000 × 90/100 ₹1,80,000 (ii)

Consideration amount [(i) + (ii)] ₹9,80,000

Question 12

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	₹	Assets	₹
8,000 Equity shares of ₹100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value.

(3) The purchase consideration is to be paid in cash to the extent of ₹6,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹1,24,400. The liquidation expenses amounted to ₹16,000. B Ltd. sold prior to 31st March, 2018 goods costing ₹1,20,000 to A Ltd. for ₹1,60,000.

₹1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018. Trade payables of A Ltd. include ₹40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

(RTP November 2019)

Answer:

Books of A Limited Realization Account

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	<u>16,000</u>		
	<u>16,06,000</u>		<u>16,06,000</u>

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	<u>1,60,000</u>
	<u>7,36,000</u>		<u>7,36,000</u>

10% Debentures Account

To Bank	<u>4,00,000</u>	By Balance b/d	<u>4,00,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

Loan Account

To Bank	<u>1,60,000</u>	By Balance b/d	<u>1,60,000</u>
	<u>1,60,000</u>		<u>1,60,000</u>

Share Issue Expenses Account

To Balance b/d	<u>34,000</u>	By Equity shareholders	<u>34,000</u>
	<u>34,000</u>		<u>34,000</u>

General Reserve Account			
To Equity shareholders	<u>80,000</u>	By Balance b/d	<u>80,000</u>
	<u>80,000</u>		<u>80,000</u>
B Ltd. Account			
To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹125 each)	<u>6,10,000</u>
	<u>12,10,000</u>		<u>12,10,000</u>
Equity Shares in B Ltd. Account			
To B Ltd.	<u>6,10,000</u>	By Equity shareholders	<u>6,10,000</u>
	<u>6,10,000</u>		<u>6,10,000</u>
Equity Share Holders Account			
To Realization Account	76,000	By Equity share capital	8,00,000
To Share issue Expenses	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	<u>1,60,000</u>		
	<u>8,80,000</u>		<u>8,80,000</u>

B Ltd**Balance Sheet as on 1st April, 2019 (An extract)***

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
(a)	Share capital	1	4,88,000
(b)	Reserves and Surplus	2	1,07,000
2	Current liabilities		
(a)	Trade Payables	3	2,80,000
(b)	Bank overdraft		6,00,000
	Total		14,75,000

* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

	Particulars	Notes	₹
1	Assets		
	Non-current assets		
(a)	Property, Plant and Equipment		
	Tangible assets	4	8,82,000
	Intangible assets	5	2,16,000
2	Current assets		
(a)	Inventories	6	1,83,000
(b)	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

			₹
1	Share Capital		
	Equity share capital		
	4,880 Equity shares of ₹100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	Reserves and Surplus (an extract)		
	Securities Premium		1,22,000
	Profit and loss account		
	Less: Unrealized profit	(15,000)	(15,000)
	Total		<u>1,07,000</u>
3	Trade payables		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	Tangible assets		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	Intangible assets		
	Goodwill		2,16,000

			₹
6 Inventories			
Opening balance	1,98,000		
Less: Cancellation of profit upon amalgamation	(15,000)		1,83,000
7 Trade receivables			
Opening balance	2,34,000		
Less: Intercompany transaction cancelled upon amalgamation	(40,000)		1,94,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	1,24,400
Less: 8% of ₹8,80,000	<u>(70,400)</u>
Super profit	<u>54,000</u>
Value of Goodwill = 54,000 x 4	<u>2,16,000</u>
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	<u>2,34,000</u>
Total Assets	15,30,000
Less: Trade payables	<u>(3,20,000)</u>
Net Assets	<u>12,10,000</u>

Out of this ₹6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹6,10,000 in shares of ₹125. Thus, the number of shares to be allotted $6,10,000/125 = 4,880$ shares.

3. Unrealized Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be	25,000
$\frac{40,000}{1,60,000} \times 1,00,000$	
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹1,00,000.	<u>(10,000)</u>
Amount of unrealized profit	<u>15,000</u>

Question 13

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2019:

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹25,000.

[MTP October, 2019, 5 Marks]

Answer**Calculation of Purchase Consideration under Net Assets Method**

	₹	₹
Sundry assets		
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	1,40,000	
Bank overdraft	50,000	
Unrecorded liability	25,000	(4,15,000)
Purchase consideration		15,11,000

Question 14

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

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

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

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

PQ Ltd. will issue:

- 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.
- 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.
- 6% Debentures to discharge the 8% debentures of both the companies.
- 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

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

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

(May 2020)

Answer

**In the Books of P Ltd.
Realization Account**

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

Equity Shareholders Account

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

9% Preference Shareholders Account

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

PQ Ltd. Account

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

8% Debentures holders Account

₹		₹	
To 6% Debentures	<u>2,00,000</u>	By 8% Debentures	<u>2,00,000</u>

Books of Q Ltd.**Realization Account**

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

Equity Shareholders Account

	₹		₹
To Equity shares in PQ Ltd.	4,22,400	By Share Capital	3,20,000
To Realization	90,750	By Profit & Loss A/c	2,05,000
To Cash	<u>61,850</u>	By General Reserve	<u>50,000</u>
	<u>5,75,000</u>		<u>5,75,000</u>

9% Preference Shareholders Account

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

PQ Ltd. Account

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

8% Debentures holders Account

	₹		₹
To 6% Debentures	<u>1,00,000</u>	By 8% Debentures	<u>1,00,000</u>

Working Notes:**(i) Purchase consideration**

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

(ii) Value of Net Assets

		P Ltd.	P Ltd.
		₹	₹
Land & Building		4,50,000	3,40,000
Plant & Machinery less 10% Depreciation		5,58,000	4,05,000
Furniture & Fittings less 10% Depreciation		90,000	45,000
Trade receivables less 5%		3,08,750	1,42,500
Inventory less 5%		2,21,350	99,750
Cash at Bank		2,08,000	1,75,000
Cash in hand		<u>54,000</u>	<u>20,000</u>
		18,90,100	12,27,250
Less: Debentures	2,00,000	1,00,000	
Trade payables	88,000	1,60,000	
Secured Loans	————	(2,88,000)	<u>1,75,000</u>
		16,02,100	7,92,250
Payable in shares		15,00,400	7,30,400
Payable in cash*		<u>1,01,700</u>	(61,850)
(iii)		P	Q
Plant & Machinery		6,20,000	4,50,000
Less: Depreciation 10%		<u>62,000</u>	<u>45,000</u>
		<u>5,58,000</u>	<u>4,05,000</u>
Furniture & Fixtures		1,00,000	50,000
Less: Depreciation 10%		<u>10,000</u>	<u>5,000</u>
		<u>90,000</u>	<u>45,000</u>

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

Chapter 6

Internal Reconstruction

Question 1

M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹50		Inventories	3,20,000
each ₹40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹100 each	6,00,000		
Trade creditors	12,40,000		
Outstanding Expenses	10,60,000		
	1,03,00,000		1,03,00,000

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.

- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.
- (3) Trade creditors are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. A agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹1,00,000.
- (5) Mr. B agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to prepare necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

(RTP May 2018)

Answer:

Journal Entries

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹50) A/c	Dr.	75,00,000	
To Equity share capital (₹40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			

		₹	₹
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	7,00,000	
To 15% Debentures A/c			5,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To 15% Debentures A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building (51,84,000 - 42,70,000)	Dr.	9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			

		₹	₹
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2017

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1	80,00,000
2 Non-current liabilities		
(a) Long-term borrowings	2	<u>8,50,000</u>
Total		<u>88,50,000</u>
Assets		
1 Non-current assets		
(a) Fixed assets		
Tangible assets	3	63,04,000
2 Current assets		
(a) Inventories		3,50,000
(b) Trade receivables		9,81,000
(c) Cash and cash equivalents		<u>12,15,000</u>
Total		<u>88,50,000</u>

Notes to accounts

		₹	₹
1. Share Capital			
2,00,000 Equity shares of ₹40			80,00,000
2. Long-term borrowings			
Secured			
15% Debentures (assumed to be secured)			8,50,000
3. Tangible assets			
Land & Building	51,84,000		
Machinery	7,20,000		
Computers	<u>4,00,000</u>		63,04,000

Working Notes:**1. Cash at Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To 15% Debentures A/c	1,00,000		
	26,18,000		26,18,000

Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By BA/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

Question 2

The Balance Sheet of Lion Limited as on 31-03-2016 is given below:

Particulars	Note No.	Amount (₹ in lakh)
<i>Equity & Liabilities</i>		
<i>Shareholders' Funds</i>		
Shares' Capital	1	1.400
Reserves & Surplus	2	(522)
<i>Non-Current Liabilities</i>		
Long term Borrowings	3	700
<i>Current Liabilities</i>		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704

Particulars	Note No.	Amount (₹ in lakh)
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

	₹ in Lakhs
(1) Share Capital	
Authorised:	
200 lakh shares of ₹10 each	2,000
8 lakh, 8% Preference Shares of ₹100 each	800
	2,800
Issued, Subscribed and paid up:	
100 lakh Equity Shares of ₹10 each, full paid up	1,000
4 lakh 8% Preference Shares of ₹100 each, fully paid up	400
Total	1400
(2) Reserves and Surplus	
Debit balance of Profit & Loss A/c	(522)
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	400
Directors' Loan	300
	700
(4) Trade Payables	
Trade payables for Goods	102
(5) Other Current Liabilities	
Interest Accrued and Due on 6% Debentures	24
(6) Tangible Assets	
Freehold Property	550
Plant & Machinery	200
	750

	₹ in Lakhs
(7) Current Investment Investment in Equity Instruments	200
(8) Inventories Finished Goods	300
(9) Trade Receivables Trade receivables for Goods	450
(10) Cash and Cash Equivalents Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹80 each and Equity Shares to ₹2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at ₹400 lakh.
- (6) All investments sold out for ₹250 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹2 each to be allowed.
- (8) 40% of Trade receivables and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Capital Reduction Account; and
- (c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(MTP March 2018) (15 Marks)

Answer:

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

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

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

	Particulars	Debit (₹ in lakhs)	Credit (₹ in lakhs)
(x)	Capital Reduction A/c To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)	286	286

Capital Reduction Account

Dr.

Cr.

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

Notes to Balance Sheet

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

Question 3

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	₹	Assets	₹
<i>Share Capital</i>		<i>Fixed Assets</i>	
30,000 Equity shares of ₹10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares ₹10 each	4,00,000	Goodwill at cost	36,100
		Freehold Land	1,20,000
		Freehold Premises	2,44,000
<i>Reserves and Surplus</i>		Plant and Equipment	3,20,000
Securities Premium Account	10,000	<i>Investment</i>	
Profit and Loss Account	(1,38,400)	(marked to market)	
<i>Secured Borrowings</i>			64,000
9% Debentures (₹100) 1,20,000		<i>Current Assets</i>	
Accrued Interest <u>5,400</u>	1,25,400	Inventories:	
<i>Current liabilities</i>		Raw materials and packing	
Trade payables	1,20,000	materials 60,000	
Tax payable	50,000	Finished goods <u>16,000</u>	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

- (1) The authorized capital of the Company to be re-fixed at ₹10 lakhs (preference capital of ₹3 lakhs and equity capital of ₹7 lakhs). Both classes of shares are of ₹10 each.
- (2) The preference shares are to be reduced to ₹5 each and equity shares reduced by ₹3 per share. Post reduction, both classes of shares to be re-consolidated into ₹10 shares.
- (3) Trade Investments are to be liquidated in open market.
- (4) One fresh equity shares of ₹10 to be issued for every ₹40 of preference dividends in arrears (ignore taxation).
- (5) Expenses for the scheme were ₹10,000.
- (6) The debenture holders took over freehold land at ₹2,10,000 and settled the balance after adjusting their dues.
- (7) Unprovided contingent liabilities were settled at ₹54,000 and a pending insurance claim receivable settled at ₹12,500.
- (8) The intangible assets were all to be written off along with ₹10,000 worth obsolete packing material and 10% of the receivables.

- (9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.
- (10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

(MTP April 2018) (16 Marks)

Answer:

In the books of Lili Ltd.

Journal Entries

			Dr.	Cr.
	2017		₹	₹
1	March 31	Equity Share Capital A/c (₹10) Dr.	3,00,000	
		To Capital Reduction A/c		90,000
		To Equity Share Capital A/c (₹7)		2,10,000
		(Being reduction of equity shares of ₹10 each to shares of ₹7 each as per Reconstruction Scheme dated...)		
2.		8% Cum. Preference Share Capital A/c (₹10) Dr.	4,00,000	
		To Capital Reduction A/c		2,00,000
		To Preference Share Capital A/c (₹5)		2,00,000
		(Being reduction of preference shares of ₹10 each to shares of ₹5 each as per reconstruction scheme)		
3.		Equity Share Capital A/c (30,000 x ₹7) Dr.	2,10,000	
		Preference Share Capital Ac (40,000 x ₹5) Dr.	2,00,000	
		To Equity Share Capital A/c		2,10,000
		(21,000 x ₹10)		
		To Preference Share Capital A/c		2,00,000
		(20,000 x ₹10)		
		(Being post reduction, both classes of shares re consolidated into ₹10 each)		
4.		Cash Account Dr.	64,000	
		To Trade Investments		64,000
		(Being trade investments liquidated in the open market)		
5.		Capital Reduction Account Dr.	32,000	
		To Equity Share Capital Account		32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ₹10 each)		

			Dr.	Cr.
	2017		₹	₹
6.		Capital Reduction Account Dr. To Cash Account (Being expenses of reconstruction scheme paid in cash)	10,000	10,000
7.		9% Debentures Account Dr. Accrued Interest Account Dr. To Debenture holders Account (Being amount due to debenture holders)	1,20,000 5,400	1,25,400
8.		Debenture holders Account Dr. Cash Account (2,10,000 - 1,25,400) Dr. To Freehold Land To Capital Reduction Account (2,10,000 - 1,20,000) (Being Debenture holders took over freehold land at ₹2,10,000 and settled the balance)	1,25,400 84,600	1,20,000 90,000
9.		Capital Reduction Account Dr. To Cash Account (Being contingent liability of ₹54,000 paid)	54,000	54,000
10.		Cash Account Dr. To Capital Reduction Account (Being pending insurance claim received)	12,500	12,500
11.		Capital Reduction Account Dr. To Trademarks and Patents To Goodwill To Raw materials & Packing materials To Trade receivables (Being intangible assets written off along with raw materials and packing materials worth ₹10,000 and 10% of trade receivables)	1,68,100	1,10,000 36,100 10,000 12,000
12.		Cash Account Dr. To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)	1,26,000	1,26,000
13.		Bank Overdraft Account Dr. To Cash Account (Being cash balance utilized to pay off bank overdraft)	2,23,100	2,23,100

			Dr.	Cr.
	2017		₹	₹
14.		Capital Reduction Account Dr. To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)	1,28,400	1,28,400

(ii) Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars	₹	Particulars	₹
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses	10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft - From available cash (64,000 + 84,600 + 12,500 - 54,000 - 10,000)	97,100
To Equity share capital 12,600 shares @ ₹10 each	1,26,000	- From proceeds of equity share capital (2,23,100-97,100)	1,26,000
	2,87,100		2,23,100
			2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = ₹2,23,100 - ₹97,100 = ₹1,26,000

Question 4

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(₹ in 000)	
	Amount
Liabilities	
Equity Shares of ₹10 each	35,000
8%, Cumulative Preference Shares of ₹100 each	17,500
6% Debentures of ₹100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Fixed Assets	43,750
Investments (Market value ₹3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

- (i) Investments are to be brought to their market value.
- (ii) The Taxation Liability is settled at ₹5,25,000 out of current Assets.
- (iii) The balance of Profit and Loss Account to be written off.
- (iv) All the existing equity shares are reduced to ₹4 each.
- (v) Ail preference shares are reduced to ₹60 each.
- (vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹100 each and exchange them for fresh debentures of ₹80 each. Each old debenture is exchanged for one new debenture.
- (vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.
- (viii) Fixed Assets are written down to 80%.
- (ix) One of the creditors of the Company for ₹70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

(November 2018) (10 marks)

Answer:

Journal Entries in the books of SK Ltd.

		₹'000	₹'000
(i)	Equity share capital (₹10) A/c Dr.	35,000	
	To Equity Share Capital (₹4) A/c		14,000
	To Capital Reduction A/c		21,000
	(Being conversion of equity share capital of ₹10 each into ₹4 each as per reconstruction scheme)		

			₹'000	₹'000
(ii)	8% Cumulative Preference Share capital (₹100) A/c To 8% Cumulative Preference Share Capital (₹60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of ₹100 each into ₹60 each as per reconstruction scheme)	Dr.	17,500	10,500 7,000
(iii)	6% Debentures (₹100) A/c To 9% Debentures (₹80) A/c To Capital Reduction A/c (Being 9% debentures of ₹80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)	Dr.	14,000	11,200 2,800
(iv)	Sundry Creditors A/c To Equity Share Capital (₹4) A/c To Capital Reduction A/c (Being a creditor of ₹70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹4 each in full settlement of his dues as per reconstruction scheme)	Dr.	7,000	3,500 3,500
(v)	Provision for Taxation A/c Capital Reduction A/c To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	Dr. Dr.	350 175	525
(vi)	Liability for Taxation A/c To Current Assets (Bank A/c) (Being the payment of tax liability)	Dr.	525	525
(vii)	Capital Reduction A/c To P & L A/c To Fixed Assets A/c To Current Assets A/c To Investments A/c To Capital Reserve A/c (Bal. fig.) (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)	Dr.	34,125	2,100 8,750 18,725 175 4,375

Working Note:**Capital Reduction Account**

To Liability for taxation A/c	175	By Equity share capital	21,000
To P&LA/c	2,100	By 8% Cumulative preferences Share capital	7,000
To Fixed Assets	8,750	By 6% Debentures	2,800
To Current assets	18,725	By Sundry creditors	3,500
To Investment	175		
To Capital Reserve (Bal. fig.)	4,375		
	34,300		34,300

Question 5

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	Amount in ₹
Share Capital:	
5,00,000 Equity shares of ₹10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	81,00,000
Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plants Machinery	12,50,000
Furnitures Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	81,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹1,00,000 and ₹60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

- (i) All the equity shares to be converted into fully paid equity shares of ₹5.00 each.
- (ii) The Preference shares be reduced to ₹50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹1,00,000 and ₹60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of ₹3.00 lacs were cancelled on payment of ₹15,000 as penalty.
- (vii) Directors refunded ₹1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid ₹15,000.
- (ix) The taxation liability of the company was settled for ₹75,000 and was paid immediately.
- (x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

(RTP November 2018)

Answer:

Journal Entries in the Books of Z Ltd.

		Dr.	Cr.
		₹	₹
(i)	Equity Share Capital (₹10 each) A/c Dr. To Equity Share Capital (₹5 each) A/c To Reconstruction A/c (Being conversion of 5,00,000 equity shares of ₹10 each fully paid into same number of fully paid equity shares of ₹5 each as per scheme of reconstruction.)	50,00,000	25,00,000 25,00,000
(ii)	9% Preference Share Capital (₹100 each) A/c Dr. To 10% Preference Share Capital (₹50 each) A/c To Reconstruction A/c (Being conversion of 9% preference share of ₹100 each into same number of 10% preference share of ₹50 each and claims of preference dividends settled as per scheme of reconstruction.)	20,00,000	10,00,000 10,00,000
(iii)	10% Secured Debentures A/c Dr. Trade payables A/c Dr. Interest on Debentures Outstanding A/c Dr.	9,60,000 1,00,000 96,000	

			Dr.	Cr.
			₹	₹
	Bank A/c Dr. 1,00,000			
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being ₹11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c Dr. 6,40,000			
	Trade Payables Dr. 60,000			
	Interest on debentures outstanding A/c Dr. 64,000			
	Bank A/c Dr. 60,000			
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being ₹7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c Dr. 1,70,000			
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c Dr. 1,00,000			
	To Equity Share Capital 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of ₹5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c To Bank A/c Dr. 15,000			15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of ₹3 Lakhs.)			
(viii)	Bank A/c Dr. 1,00,000			1,00,000
	To Reconstruction A/c			
	(Being refund of fees by directors credited to reconstruction A/c)			
(ix)	Reconstruction A/c Dr. 15,000			15,000
	To Bank A/c			
	(Being payment of reconstruction expenses)			
(x)	Provision for Tax A/c Dr. 1,00,000			75,000
	To Bank A/c			25,000
	To Reconstruction A/c			
	(Being payment of tax liability in full settlement against provision for tax)			

		Dr.	Cr.
		₹	₹
(xi)	Land and Building A/c Dr. To Reconstruction A/c (Being appreciation in value of Land & Building recorded)	2,00,000	2,00,000
(xii)	Reconstruction A/c Dr. To Goodwill A/c To Patent A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Trade Investment A/c To Inventory A/c To Trade Receivables A/c To Capital Reserve (bal. fig.) (Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)	49,85,000	10,00,000 5,00,000 14,60,000 1,00,000 6,50,000 1,00,000 50,000 2,50,000 1,00,000 7,75,000

Bank Account

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction (Z)	60,000	By Reconstruction A/c	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	(capital commitment penalty paid)	
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	₹		₹
To Bank (penalty)	15,000	By Equity Share	
To Bank (reconstruction expenses)	15,000	Capital A/c	25,00,000
To Goodwill	10,00,000	By 9% Pref. Share	
To Patent	5,00,000	Capital A/c	10,00,000

	₹		₹
To P&LA/c	14,60,000	By Mr. Y (Settlement)	5,78,000
To Discount on issue of debentures	1,00,000	By Mr. Z (Settlement)	3,82,000
To P&M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

Question 6

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (₹ in lakh)
Equity & Liabilities		
<i>Shareholders' Funds</i>		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
<i>Non-Current Liabilities</i>		
Long term Borrowings	3	700
<i>Current Liabilities</i>		
Trade Payables	4	102
Other Liabilities	5	24
Total		1,704
Assets		
<i>Non-Current Assets</i>		
<i>Property, Plants Equipment</i>		
Tangible Assets	6	750
<i>Current Assets</i>		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1,704

Notes to Accounts:

	₹ in Lakhs
(1) Share Capital Authorised:	
200 lakh shares of ₹10 each	2,000
8 lakh, 8% Preference Shares of ₹100 each	800
	2,800
Issued, Subscribed and paid up:	
100 lakh Equity Shares of ₹10 each, full paid up	1,000
4 lakh 8% Preference Shares of ₹100 each, fully paid up	400
Total	1,400
(2) Reserves and Surplus	
Debit balance of Profit & Loss A/c	(522)
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	400
Directors' Loan	300
	700
(4) Trade Payables	
Trade payables for Goods	102
(5) Other Current Liabilities	
Interest Accrued and Due on 6% Debentures	24
(6) Tangible Assets	
Freehold Property	550
Plant & Machinery	200
	750
(7) Current Investment	
Investment in Equity Instruments	200
(8) Inventories	
Finished Goods	300
(9) Trade Receivables	
Trade receivables for Goods	450
(10) Cash and Cash Equivalents	
Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹80 each and Equity Shares to ₹2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at ₹400 lakh.
- (6) All investments sold out for ₹250 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹2 each to be allowed.
- (8) 40% of Trade receivables and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Reconstruction Account; and
- (c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

(RTP May, 2019)

Answer

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

	Particulars	Debit (₹ in lakhs)	Credit (₹ in lakhs)
(i)	8% Preference share capital A/c (7100 each) Dr. To 8% Preference share capital A/c (780 each) To Capital Reduction A/c (Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)	400	320 80
(ii)	Equity share capital A/c (₹10 each) Dr. To Equity share capital A/c (₹2 each) To Capital Reduction A/c (Being the equity shares of ₹10 each reduced to ₹2 each)	1,000	200 800
(iii)	Capital Reduction A/c Dr. To Equity share capital A/c (₹2 each) (Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of ₹2 each)	32	32
(iv)	6% Debentures A/c Dr. To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	300	300
(v)	Accrued debenture interest A/c Dr. To Bank A/c (Being accrued debenture interest paid)	24	24

	Particulars		Debit (₹ in lakhs)	Credit (₹ in lakhs)
(vi)	Freehold property A/c Dr. To Capital Reduction A/c (Being appreciation in the value of freehold property)		150	150
(vii)	Bank A/c Dr. To Investments A/c To Capital Reduction A/c (Being investment sold at profit)		250	250
(viii)	Director's loan A/c Dr. To Equity share capital A/c (₹2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹2 each)		300	300
(ix)	Capital Reduction A/c Dr. To Profit and loss A/c To Trade receivables A/c (450 x 40%) To Inventories-in-trade A/c (300x 80%) To Bank At (600 x5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)		972	972
(x)	Capital Reduction A/c Dr. To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)		286	286

(b) Capital Reduction Account**Dr.****Cr.**

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

(c) Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	200 lakhs Equity shares of ₹2 each		400
	8 lakhs 8% Preference shares of ₹80 each		640
			1,040

		(₹ in lakhs)	(₹ in lakhs)
	<i>Issued:</i>		
	161 lakhs equity shares of 72 each		322
	4 lakhs Preference Shares of 780 each		<u>320</u>
			642
2.	Tangible Assets		
	Freehold Property	550	
	Less: Utilized to pay Debenture holders	<u>(300)</u>	
		250	
	Add: Appreciation	<u>150</u>	400
	Plant and Machinery		<u>200</u>
			<u>600</u>

Question 7

From the following information, you are required to compute the basic and adjusted Earnings per share:

Net profit for 2015-16	11 lakh
Net profit for 2016-17	15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	15 per share
Last date of exercising right option	1-06-2016
Fair value of shares before right issue	21 per share

(MTP-March 2019) (5 Marks)

Answer:

Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

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

Theoretical ex-rights fair value per share = ₹20.00

(a) Computation of adjustment factor

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

Computation of earnings per share

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (₹11,00,000/5,00,000 shares)	₹2.20	

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 restated for rights issue: [₹11,00,000/(5,00,000 shares x 1.05)]	₹2.10	
EPS for the year 2016-17 including effects of rights issue Rs. 15,00,000 (5,00,000 x 1.05 x 2/12) + (6,00,000 x 10/12)		₹2.55

Question 8

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
30,000 Equity shares of ₹10 each	3,00,000	Trade marks and Patents	1,10,000
40,000 8% Cumulative Preference shares ₹10 each	4,00,000	Goodwill at cost	36,100
<i>Reserves and Surplus</i>		Freehold Land	1,20,000
Securities Premium Account	10,000	Freehold Premises	2,44,000
Profit and Loss Account	(1,38,400)	Plant and Equipment	3,20,000
<i>Secured Borrowings</i>		<i>Investment (marked to market)</i>	64,000
9% Debentures (₹100) 1,20,000		<i>Current Assets</i>	
Accrued Interest <u>5,400</u>	1,25,400	Inventories:	
<i>Current liabilities</i>		Raw materials and packing materials	60,000
Trade payables	1,20,000	Finished goods <u>16,000</u>	76,000
Tax payable	50,000	Trade receivables	1,20,000
Temporary bank overdraft	2,23,100		
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

- (1) The authorized capital of the Company to be re-fixed at ₹10 lakhs (preference capital of ₹3 lakhs and equity capital of ₹7 lakhs). Both classes of shares are of ₹10 each.
- (2) The preference shares are to be reduced to ₹5 each and equity shares reduced by ₹3 per share. Post reduction, both classes of shares to be re-consolidated into ₹10 shares.
- (3) Trade Investments are to be liquidated in open market.
- (4) One fresh equity shares of ₹10 to be issued for every ₹40 of preference dividends in arrears (ignore taxation).

- (5) Expenses for the scheme were ₹10,000.
- (6) The debenture holders took over freehold land at ₹2,10,000 and settled the balance after adjusting their dues.
- (7) Unprovided contingent liabilities were settled at ₹54,000 and a pending insurance claim receivable settled at ₹12,500.
- (8) The intangible assets were all to be written off along with ₹10,000 worth obsolete packing material and 10% of the receivables.
- (9) Remaining cash available as a result of the above transactions is to be utilized to payoff the bank overdraft to that extent.
- (10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

(MTP-March 2019) (15 Marks)

Answer:

(i) In the books of Lili Ltd.
Journal Entries

				Dr.	Cr.
	2017			₹	₹
1.	March 31	Equity Share Capital A/c (₹10) To Capital Reduction A/c To Equity Share Capital A/c (₹7) (Being reduction of equity shares of ₹10 each to shares of ₹7 each as per Reconstruction Scheme dated...)	Dr.	3,00,000	90,000 2,10,000
2.		8% Cum. Preference Share Capital A/c (₹10) To Capital Reduction A/c To Preference Share Capital A/c (₹5) (Being reduction of preference shares of ₹10 each to shares of ₹5 each as per reconstruction scheme)	Dr.	4,00,000	2,00,000 2,00,000
3.		Equity Share Capital A/c (30,000 x ₹7) Preference Share Capital A/c (40,000 x ₹5) To Equity Share Capital A/c (21,000 x ₹10) To Preference Share Capital A/c (20,000 x ₹10) (Being post reduction, both classes of shares re consolidated into ₹10 each)		2,10,000 2,00,000	2,10,000 2,00,000
4.		Cash Account To Trade Investments (Being trade investments liquidated in the open market)		64,000	64,000
5.		Capital Reduction Account To Equity Share Capital Account (Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ₹10 each)		32,000	32,000

				Dr.	Cr.
	2017			₹	₹
6.		Capital Reduction Account To Cash Account (Being expenses of reconstruction scheme paid in cash)		10,000	10,000
7.		9% Debentures Account Accrued Interest Account To Debenture holders Account (Being amount due to debenture holders)		1,20,000 5,400	1,25,400
8.		Debenture holders Account Cash Account (2,10,000 - 1,25,400) To Freehold Land To Capital Reduction Account (2,10,000 - 1,20,000) (Being Debenture holders took over freehold land at ₹2,10,000 and settled the balance)		1,25,400 84,600	1,20,000 90,000
9.		Capital Reduction Account To Cash Account (Being contingent liability of ₹54,000 paid)		54,000	54,000
10.		Cash Account To Capital Reduction Account (Being pending insurance claim received)		12,500	12,500
11.		Capital Reduction Account To Trade marks and Patents To Goodwill To Raw materials & Packing materials To Trade receivables (Being intangible assets written off along with raw materials and packing materials worth ₹10,000 and 10% of trade receivables)		1,68,100	1,10,000 36,100 10,000 12,000
12.		Cash Account To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)		1,26,000	1,26,000
13.		Bank Overdraft Account To Cash Account (Being cash balance utilized to pay off bank overdraft)	Dr.	2,23,100	2,23,100
14.		Capital Reduction Account To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)	Dr.	1,28,400	1,28,400

(ii) Capital Reduction Account

Particulars	₹	Particulars	₹
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars	₹	Particulars	₹
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses	10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft - From available cash (64,000+84,600+12,500 -54,000-10,000)	97,100
To Equity share capital 12,600 shares @ ₹10 each	1,26,000	- From proceeds of equity share capital (2,23,100-97.100)	1,26,000
	2,87,100		2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = ₹2,23,100 - ₹97,100 = ₹1,26,000

Question 9

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Goodwill	
50,000 shares of ₹50 each fully paid up	25,00,000	Land & Building	22,00,000
1,00,000 shares of ₹50 each ₹40 paid up	40,00,000	Machinery	42,70,000
Capital Reserve	5,00,000	Computers	8,50,000
		Inventories	5,20,000

Liabilities	Amount (₹)	Assets	Amount (₹)
8% Debentures of ₹100 each	4,00,000	Trade receivables	3,20,000
12% Debentures of ₹100 each	6,00,000	Cash at Bank	10,90,000
Trade payables	12,40,000	Profit & Loss Account	2,68,000
Outstanding Expenses	<u>10,60,000</u>		<u>7,82,000</u>
Total	<u>1,03,00,000</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to ₹1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

(RTP November 2019)

Answer:

Journal Entries in the books of Platinum Ltd.

		₹	₹
	Bank A/c (1,00,000 x ₹10) Dr.	10,00,000	
	To Equity share capital A/c		10,00,000
	(Being money on final call received)		

		₹	₹
Equity share capital (₹50) A/c	Dr.	75,00,000	
To Equity share capital (₹40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To Shiv A/c			7,00,000
(Being cancellation of 8% and 12% debentures of Shiv)			
Bank A/c	Dr.	1,00,000	
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			
Shiv A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To Ganesh A/c			3,00,000
(Being cancellation of 8% and 12% debentures of Ganesh)			
Ganesh A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.	9,14,000	
(51,84,000 – 42,70,000)			
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			

		₹	₹
	Outstanding expenses A/c Dr.	10,60,000	
	To Bank A/c		10,60,000
	(Being outstanding expenses paid in cash)		
	Capital Reduction A/c Dr.	33,41,000	
	To Machinery A/c		1,30,000
	To Computers A/c		1,20,000
	To Trade receivables A/c		1,09,000
	To Goodwill A/c		22,00,000
	To Profit and Loss A/c		7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)		
	Capital Reserve A/c Dr.	5,00,000	
	To Capital Reduction A/c		5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)		

Balance Sheet (as reduced) as on 31.3.2019

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	(a) Share capital	1	80,00,000
2	Non-current liabilities		
	(a) Long-term borrowings	2	<u>8,50,000</u>
	Total		<u>88,50,000</u>
	Assets		
1	Non-current assets		
	(a) Property, Plant and Equipment		
	Tangible assets	3	63,04,000
2	Current assets		
	(a) Inventories		3,50,000
	(b) Trade receivables		9,81,000
	(c) Cash and cash equivalents		<u>12,15,000</u>
	Total		<u>88,50,000</u>

Notes to accounts

			₹
1. Share Capital			
2,00,000 Equity shares of ₹40			80,00,000
2. Long-term borrowings			
Secured			
15% Debentures(assumed to be secured)			8,50,000
3. Tangible assets			
Land & Building	51,84,000		
Machinery	7,20,000		
Computers	<u>4,00,000</u>		
			63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	<u>5,00,000</u>
	<u>33,41,000</u>		<u>33,41,000</u>

Question 10

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019.

Particulars	Amount
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹50 each	7,50,000
(b) 18,750 Equity shares of ₹50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

- (i) The equity shareholders have agreed that their ₹50 shares should be reduced to ₹5 by cancellation of ₹45.00 per share. They have also agreed to subscribe for three new equity shares of ₹5.00 each for each equity share held.
- (ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹50 preference share, 4 new 6% preference shares of ₹10 each, plus 3 new equity shares of ₹5.00 each, all credited as fully paid.
- (iii) Lenders to the company for ₹1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹10 each and 7,500 new equity shares of ₹5.00 each.
- (iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹5.00 each in addition to any shares to be subscribed by them under (i) above.
- (v) Of the cash received by the issue of new shares, ₹2,50,000 is to be used to reduce the loan due by the company.
- (vi) The equity share capital cancelled is to be applied :
 - (a) To write off the debit balance in the Profit and Loss A/c, and
 - (b) To write off ₹43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital as reduced is to be increased to ₹8,12,500 for preference share capital and ₹9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(November 2019, New Course, 15 Marks)

Answer

In the books of Fortunate Ltd.

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50) Dr. To Equity share capital A/c (₹ 5) To Capital reduction A/c* (Being equity capital reduced to nominal value of ₹ 5 each)		9,37,500	93,750 8,43,750
2.	Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)		2,81,250	2,81,250
3.	8% Preference share capital A/c (₹ 50) Dr. Capital reduction A/c Dr. To 6% Preference share capital (₹ 10) To equity share capital (₹ 50) (Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)		7,50,000 75,000	6,00,000 2,25,000
4.	Loan A/c Dr. To 6% Preference share capital A/c (15,000 x ₹ 10) To Equity share capital A/c (7,500 x ₹ 5) (Being loan to the extent of ₹ 1,50,000 converted into share capital)		1,87,500	1,50,000 37,500
5.	Bank A/c (25,000 x ₹ 5) Dr. To Equity share application A/c (Being shares subscribed by the directors)		1,25,000	1,25,000
6.	Equity share application A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)		1,25,000	1,25,000

	Particulars		Debit (₹)	Credit (₹)
7.	Loan A/c To Bank A/c (Being loan repaid)	Dr.	2,50,000	2,50,000
8.	Capital reduction A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal. fig.) (Being losses and assets written off to the extent required)	Dr.	7,68,750	5,63,750 43,750 1,61,250

Balance sheet of Fortunate Ltd. (and reduced) as on 31.3.2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	15,12,500
2		Non-current liabilities		
	(a)	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		Current liabilities		
	(a)	Trade Payables		2,58,750
	(b)	Other current liabilities		<u>43,750</u>
		Total		<u>20,93,750</u>
		Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment	2	7,91,250
	(b)	Intangible assets	3	2,36,250
2		Current assets		
	(a)	Inventories		5,00,000
	(b)	Trade receivables		4,10,000
	(c)	Cash and cash equivalents	4	<u>1,56,250</u>
		Total		<u>20,93,750</u>

Notes to accounts:

			₹
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	<u>9,37,500</u>	<u>17,50,000</u>
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	<u>7,50,000</u>	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	<u>2,91,250</u>	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

Note: *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Question 11

M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹50		Inventories	3,20,000
each ₹40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹100 each	6,00,000		
Trade payables	12,40,000		
Outstanding Expenses	10,60,000		
	<u>1,03,00,000</u>		<u>1,03,00,000</u>

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of ₹40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for ₹7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. A agrees to cancel debentures amounting to ₹2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹1,00,000.
- (5) Mr. B agrees to cancel debentures amounting to ₹50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹51,84,000, Machinery at ₹7,20,000, Computers at ₹4,00,000, Inventories at ₹3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

[MTP October, 2019, 15 Marks]

Answer

Journal Entries

		₹	₹
Bank A/c	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹50) A/c	Dr.	75,00,000	
To Equity share capital (₹40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹40 each)			

		₹	₹
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To A A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.		
(51,84,000-42,70,000)		9,14,000	
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			

		₹	₹
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			
Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2019

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
(a) Share capital	1	80,00,000
2 Non-current liabilities		
(a) Long-term borrowings	2	8,50,000
Total		88,50,000
Assets		
1 Non-current assets		
(a) Property, Plant and Equipment		
Tangible assets	3	63,04,000
2 Current assets		
(a) Inventories		3,50,000
(b) Trade receivables		9,81,000
(c) Cash and cash equivalents		12,15,000
Total		88,50,000

Notes to accounts

			₹
1. Share Capital			
2,00,000 Equity shares of ₹40			80,00,000
2. Long-term borrowings			
Secured			
15% Debentures (assumed to be secured)			8,50,000
3. Tangible assets			
Land & Building	51,84,000		
Machinery	7,20,000		
Computers	4,00,000		63,04,000

Working Notes:

1. Cash at Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade payables A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To A A/c	1,00,000		
	26,18,000		26,18,000

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By BA/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

Question 12

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

	₹
A. Equity & Liabilities	
1. Shareholders' Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
10,000 Equity Shares of ₹ 100 each fully paid	10,00,000

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

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

- (i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.
- (ii) Paid up value of Equity Shares to be reduced to ₹ 10.
- (iii) The directors to refund ₹ 50,000 of the fees previously received by them.
- (iv) Debenture holders forego their interest of ₹ 26,000 which is included among the trade payables.
- (v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

- (vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.
- (vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
- (viii) Inventory was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.
- (ix) Chennai works completely written off.
- (x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

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

(May 2020)

Answer

In the books of Star Ltd. Journal Entries

Particulars		Amount ₹	Amount ₹
(i)	7% Preference share capital (₹ 100) Dr. To 9% Preference share capital (₹ 80) To Capital reduction A/c (Being preference shares reduced to ₹ 80 and also rate of dividend raised from 7% to 9%)	9,00,000	7,20,000 1,80,000
(ii)	Equity share capital A/c (₹ 100 each) Dr. To Equity share capital A/c (₹ 10 each) To Capital reduction A/c (Being reduction of nominal value of one share of ₹ 100 each to ₹ 10 each)	10,00,000	1,00,000 9,00,000
(iii)	Bank A/c Dr. To Capital reduction A/c (Being directors refunded the fee amount)	50,000	50,000
(iv)	Trade payables A/c (Interest on debentures) Dr. To Capital reduction A/c (Being interest forgone by the debenture holders)	26,000	26,000
(v)	No entry required		

Particulars			Amount ₹	Amount ₹
(vi) (a)	'B' 6% Debentures A/c To Debentures holders A/c (Being amount due to Debentures holders)	Dr.	3,50,000	3,50,000
(b)	Debentures holders A/c To Chennai Works A/c To Equity share capital A/c (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)	Dr.	4,40,000	4,25,000 15,000
(c)	Equity share of Zia Ltd. A/c To Debentures holders A/c (Being 9,000 equity shares of Zia Ltd. issued by Debentures holders)	Dr.	90,000	90,000
(vii) (a)	Chennai Works – Workmen Compensation Fund To Capital reduction A/c (Being difference due to reduced amount of actual liability transferred to capital reduction account)	Dr.	4,000	4,000
(b)	Bank A/c To Investment for Workmen Compensation Fund To Capital reduction A/c (Being investment for Workmen Compensation Fund sold @ 10% profit)	Dr.	15,400	14,000 1,400
(C)	Trade Payables A/c To Bank A/c (Being part payment made to trade payables)	Dr.	15,400	15,400
(viii)	Capital reduction A/c To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)	Dr.	2,10,000	20,000 1,90,000
(ix)	Capital reduction A/c To Profit & Loss A/c To PPE – Chennai Works (Being assets revalued and losses written off)	Dr.	5,50,000	2,00,000 3,50,000

Particulars		Amount ₹	Amount ₹
(x)	Capital reduction A/c Dr.	4,01,400	
	To PPE – Bombay Works		2,67,600
	To Capital reserve A/c		1,33,800
	(Being assets revalued and remaining amount transferred to capital reserve account)		

Accounting Standards

AS 4: Contingencies and Events Occurring after Balance Sheet Date

Question 1

EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2017. The company seeks your advice on the following:

- (i) The Company's sales tax assessment for assessment year 2014-15 has been completed on 14th February, 2017 with a demand of ₹2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.
- (ii) The Company has entered into a wage agreement in May, 2017 whereby the labour union has accepted a revision in wage from June, 2016. The agreement provided that the hike till May, 2017 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2017.

You required to examine and give suggestions in line with the relevant Accounting Standards.

(MTP April 2018) (5 Marks)

Answer:

- (i) Since the company is not appealing against the addition of ₹0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 2017. The amount paid under protest can be kept under the heading 'Loans & Advances' and disclosed along with the contingent liability of ₹2.10 crore.
- (ii) The arrears for the period from June, 2016 to March, 2017 are required to be provided for in the accounts of the company for the year ended on 31st March, 2017.

Question 2

EXOX Ltd. is in the process of finalising its accounts for the year ended 31st March, 2017. The company seeks your advice on the following:

- (i) The Company's sales tax assessment for assessment year 2014-15 has been completed on 14th February, 2017 with a demand of ₹2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.
- (ii) The Company has entered into a wage agreement in May, 2017 whereby the labour union has accepted a revision in wage from June, 2016. The agreement provided that the hike till May, 2017 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2017.

You required to examine and give suggestions in line with the relevant Accounting Standards.

(MTP-April 2019) (5 Marks)

Answer:

- (i) Since the company is not appealing against the addition of ₹0.66 crore the same should be provided for in its accounts for the year ended on 31st March, 2017. The amount paid under protest can be kept under the heading 'Loans & Advances' and disclosed along with the contingent liability of ₹2.10 crore.
- (ii) The arrears for the period from June, 2016 to March, 2017 are required to be provided for in the accounts of the company for the year ended on 31st March, 2017.

Question 3

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.

(May 2019) (1 Marks)

Answer

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.

Question 4

The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided:

- (i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of ₹25 lakhs.
- (ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was ₹50 lakhs.
- (iii) Theft of cash of ₹5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.
- (iv) Company sends proposal to sell an immovable property for ₹40 lakhs in March, 2018. The book value of the property, is ₹30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

- (v) A major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

(May 2019) (5 Marks)

Answer

- (i) Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.
- (ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2018. This is clearly an event occurring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2018.
- (iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 18 after approval of financial statements by the Board of Directors, hence no treatment is required.
- (iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, *no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2018.*
- (v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

Question 5

The accounting year of Dee Limited ended on 31st March, 2018 but the accounts were approved on 30th April, 2018. On 15th April, 2018 a fire occurred in the factory and office premises. The loss by fire is of such a magnitude that it was not possible to expect the enterprise Dee Limited to start operation again.

State with reasons, whether the loss due to fire is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company in the context of the provisions of AS-4 (Revised).

(November 2018) (5 Marks)

Answer:

As per AS 4 (Revised) "Contingencies and Events occurring after the Balance Sheet Date", an event occurring after the balance sheet date should be an adjusting event even if it does not reflect any condition existing on the balance sheet date, if the event is such as to indicate that the fundamental accounting assumption of going concern is no longer appropriate.

The fire occurred in the factory and office premises of an enterprise after 31 March, 2018 but before approval of financial statement of 30.4.18. The loss by fire is of such a magnitude that it is not reasonable to expect the Dee Ltd. to start operations again, i.e., the going concern assumption is not valid. Since the fire occurred after 31/03/18, the loss on fire is not a result of any condition existing on 31/03/18. But the loss due to fire is an adjusting event the entire accounts need to be prepared on a liquidation basis with adequate disclosures by the company by way of note in its financial statements in the following manner:

“Major fire occurred in the factory and office premises on 15th April, 2018 which has made impossible for the enterprise to start operations again. Therefore, the financial statements have been prepared on liquidation basis.”

Question 6

The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹2 per equity share (on 2 crore fully paid up equity shares of ₹10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

(RTP May 2019)

Answer:

As per the amendment in AS 4 “Contingencies and Events Occurring After the Balance Sheet Date” vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/ shareholders.

Question 7

While preparing its final accounts for the year ended 31st March, 2017, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2017 a debtor for ₹20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2017 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2017? You are required to advise the company in line with AS 4.

(RTP November 2018)

Answer:

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹20,00,000 suffered heavy loss due to earthquake in the last week of February, 2017 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2017 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2017. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹19,00,000 shall be made $(20,00,000 \times 95\%)$ for the year ended 31st March, 2017.

Question 8

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

- (i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.
- (ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹20 lakhs.

(RTP May 2018)

Answer:

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

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

Question 9

While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for ₹20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

Comment with reference to relevant Accounting Standard.

(MTP March 2019) (5 Marks)

Answer:

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2016. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹19,00,000 shall be made $(20,00,000 \times 95\%)$.

Question 10

While preparing its final accounts for the year ended 31st March, 2019, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2019 a debtor for ₹20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2019 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2019? Comment with reference to relevant Accounting Standard.

(MTP April 2019) (5 Marks)

Answer:

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹20,00,000 suffered heavy loss due to earthquake in the last week of February, 2019 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2019 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2019. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹19,00,000 shall be made $(20,00,000 \times 95\%)$.

Question 11

The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹2 per equity share (on 2 crore fully paid up equity shares of ₹10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

(MTP August, 2018) (5 Marks)

Answer:

As per the amendment in AS 4 "Contingencies and Events Occurring After the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

No, provision for proposed dividends is not required to be made. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

Question 12

The Board of Directors of New Graphics Ltd. in its Board Meeting held on 18th April, 2017, considered and approved the Audited Financial results along with Auditors Report for the Financial Year ended 31st March, 2017 and recommended a dividend of ₹2 per equity share (on 2 crore fully paid up equity shares of ₹10 each) for the year ended 31st March, 2017 and if approved by the members at the forthcoming Annual General Meeting of the company on 18th June, 2017, the same will be paid to all the eligible shareholders.

Discuss on the accounting treatment and presentation of the said proposed dividend in the annual accounts of the company for the year ended 31st March, 2017 as per the applicable Accounting Standard and other Statutory Requirements.

(MTP March 2018) (5 Marks)

Answer:

As per the amendment in AS 4 "Contingencies and Events Occurring after the Balance Sheet Date" vide Companies (Accounting Standards) Amendments Rules, 2016 dated 30th March, 2016, the events which take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature.

However, dividends declared after the balance sheet date but before approval of financial statements are not recognized as a liability at the balance sheet date because no statutory obligation exists at that time. Hence such dividends are disclosed in the notes to financial statements.

Provision for proposed dividends is not required to be made as per the amendment in AS 4. Such proposed dividends are to be disclosed in the notes to financial statements. Accordingly, the dividend of ₹4 crores recommended by New Graphics Ltd. in its Board meeting on 18th April, 2017 shall not be accounted for in the books for the year 2016-17 irrespective of the fact that it pertains to the year 2016-17 and will be paid after approval in the Annual General Meeting of the members/shareholders.

Question 13

While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for ₹20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016?

You are required to examine and comment with reference to relevant Accounting Standard.

(MTP April, 2018) (5 Marks)

Answer:

As per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date.

A debtor for ₹20,00,000 suffered heavy loss due to earthquake in the last week of February, 2016 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2016 (after the balance sheet date) is only an additional information related to the condition existing on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹20,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2016. Since the company has already made 5% provision of its total debtors, additional provision amounting ₹19,00,000 shall be made ($₹20,00,000 \times 95\%$).

Question 14

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

- (i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.
- (ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

Answer

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

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

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

Question 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.

(May 2019) (1 Marks)

Answer

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.

Question 2

PQR Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2018. The company seeks your advice on the following:

- (i) Goods worth ₹5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company. But no entry was passed in the books for insurance claim in the financial year 2015-16. In March, 2018, the claim was passed and the company received a payment of ₹3,50,000 against the claim. Explain the treatment of such receipt in final account for the year ended 31st March, 2018.
- (ii) Company created a provision for bad and doubtful debts at 2.5% on debtors in preparing the financial statements for the year 2017-18.

Subsequently, on a review of the credit period allowed and financial capacity of the customers, the company decides to increase the provision to 8% on debtors as on 31.03.2018. The accounts were not approved by the Board of Directors till the date of decision. While applying the relevant accounting standard, can this revision be considered as an extra ordinary item or prior period item?

(May 2018) (5 Marks)

Answer:

- (i) As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", *prior period items* are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.
In the given instance, it is clearly a case of error/omission in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.
- (ii) In the given case, a limited company created 2.5% provision for doubtful debts for the year 2017-2018. Subsequently, the company revised the estimates based on the changed circumstances and wants to create 8% provision.

As per AS 5, the revision in rate of provision for doubtful debts will be considered as change in estimate and is neither a prior period item nor an extraordinary item.

The effect of such change should be shown in the profit and loss account for the year ending 31st March, 2018.

Question 3

Goods of ₹5,00,000 were destroyed due to flood in September, 2015. A claim was lodged with insurance company, but no entry was passed in the books for insurance claim.

In March, 2018, the claim was passed and the company received a payment of ₹3,50,000 against the claim. Explain the treatment of such receipt in final accounts for the year ended 31st March, 2018.

(RTP May 2019)

Answer:

As per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", prior period items are income or expenses, which arise, in the current period as a result of error or omissions in the preparation of financial statements of one or more prior periods. Further, the nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

In the given instance, it is clearly a case of error in preparation of financial statements for the year 2015-16. Hence, claim received in the financial year 2017-18 is a prior period item and should be separately disclosed in the statement of Profit and Loss.

Question 4

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS 5

- (i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016-2017, the rate of provision has been changed to 3%.
- (ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
- (iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.
- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹20,000 per month. Earlier there was no such scheme of pension in the organization.
- (v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

(RTP November 2018)

Answer:

- (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2016. Subsequently in 2016-17, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.

- (ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.
- (iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.
- (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
- (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.

Question 5

Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹2 lakhs was disclosed as net profit from sale of assets.

You are required to examine the treatment and disclosure done by the company and advise the company in line with AS 5.

(RTP May 2018)

Answer:

As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. 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.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

Question 6

Examine whether the following will constitute a change in accounting policy or not as per AS 5.

- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of ₹20,000 per month. Earlier there was no such scheme of pension in the organisation.

(MTP March 2019) (5 Marks)

Answer:

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

- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
- (ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

Question 7

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

- (i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

(May 2020)

Answer

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

- (i) Accordingly, introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is not a change in an accounting policy.
- (ii) Similarly, the adoption of a new accounting policy for events or transactions which did not occur previously or that were immaterial will not be treated as a change in an accounting policy.

AS 7: Construction Contracts

Question 1

Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018:

	₹ in lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

- (i) Profit/Loss for the year ended 31st March, 2018.
- (ii) Contract work in progress as at end of financial year 2017-18.
- (iii) Revenue to be recognized out of the total contract value.
- (iv) Amount due from/to customers as at the year end.

(May 2018) (5 Marks)

Answer:

(i)	Loss for the year ended, 31st March, 2018	(₹ in lakhs)
	Amount of foreseeable loss	
	Total cost of construction (6,250 + 1,250 + 8,750)	16,250
	Less: Total contract price	<u>(12,000)</u>
	Total foreseeable loss to be recognised as expense	4,250

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

Loss for the year ended, 31st March, 2018 amounting ₹4,250 will be recognized.

(ii)	Contract work-in-progress as on 31.3.18	(₹ in lakhs)
	Contract work-in-progress i.e. cost incurred to date are ₹7,500 lakhs:	
	Work certified	6,250
	Work not certified	1,250
		<u>7,500</u>

(iii) Proportion of total contract value recognised as revenue

Cost incurred till 31.3.18 is 46.15% ($7,500/16,250 \times 100$) of total costs of construction.

Proportion of total contract value recognised as revenue:

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

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

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

$$= (7,500 + \text{Nil} - 4,250) - (5,500 + 1,500) \text{ ₹ in lakhs}$$

$$= [3,250 - 7,000] 7 \text{ in lakhs}$$

Amount due to customers = ₹3,750 lakhs

Question 2

Uday Constructions undertake to construct abridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹9.50 crores of rupees. You are given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹4 crores

Cost estimated to complete the contract ₹6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to identify the state of completion and calculate the revenue and profit to be recognized for the year as per AS 7.

(RTP May 2018)

Answer:

	₹ in crore
Cost of construction of bridge incurred 31.3.16	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$$= (4/10) \times 100 = 40\%$$

Revenue and Profit to be recognized for the year ended 31st March, 2016 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

$$= ₹12.60 \text{ crore} \times 40\% = ₹5.04 \text{ crore}$$

$$\text{Profit for the year ended 31st March, 2016} = ₹5.04 \text{ crore less } ₹4 \text{ crore} = 1.04 \text{ crore}$$

Question 3

X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹490 lakhs. The agreement lays down values for each of the four outlets 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Examine and Decide whether X Ltd., will treat it as a single contract or four separate contracts.

(MTP March 2018) (5 Marks)

Answer:

As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

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

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

Question 4

Uday Constructions undertake to construct abridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2018 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹12 crores with an escalation clause. You are given the following information for the year ended 31.03.2018:

Cost incurred upto 31.03.2018 ₹4 crores

Cost estimated to complete the contract ₹6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and compute the amount of revenue and profit to be recognized for the year as per AS-7.

(RTP November 2018)

Answer

	₹ in crore
Cost of construction of bridge incurred upto 31.3.18	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore × 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$$= (4/10) \times 100 = 40\%$$

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7

Proportion of total contract value recognized as revenue = Contract price × percentage of completion

$$= ₹12.60 \text{ crore} \times 40\% = ₹5.04 \text{ crore}$$

$$\text{Profit for the year ended 31st March, 2018} = ₹5.04 \text{ crore less } ₹4 \text{ crore} = 1.04 \text{ crore}$$

Question 5

X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹490 lakhs. The agreement lays down values for each of the four outlets (₹88 + 132 + 160 + 110 lakhs) in addition to individual completion time. You are required to examine and comment whether X Ltd., will treat it as a single contract or four separate contracts.

(MTP August 2018) (5 Marks)

Answer:

As per AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract. Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS 7.

Question 6

M/s Highway Constructions undertook the construction of a highway on 01.04.2016. The contract was to be completed in 2 years. The contract price was estimated at ₹150 crores. Up to 31.03.2017 the company incurred ₹120 crores on the construction. The engineers involved in the project estimated that a further ₹45 crores would be incurred for completing the work.

What amount should be charged to profit and loss statement for the year 2016-17 as per the provisions of Accounting Standard 7 "Construction Contracts"?

(MTP October 2018) (5 Marks)

Answer:**Statement showing amount to be charged to Profit and Loss Statement as per AS 7**

	₹ in crores
Cost of construction incurred upto 31.03.2017	120
Add: Estimated future cost	<u>45</u>
Total estimated cost of construction	<u>165</u>
Degree of completion (120/165 x 100)	72.73%
Revenue recognized (72.73% of 150)	109 (approx)
Total foreseeable loss (165 – 150)	15
Less: Loss for the current year (120 – 109)	<u>11</u>
Loss to be provided for in the P&L statement	<u>4</u>

Question 7

GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol S Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹102 lacs, ₹150 lacs, ₹130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

(RTP May, 2019)

Answer:

As per AS 7 'Construction Contracts', when a contract covers number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

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

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

Question 8

- (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. ₹50 Lakh, ₹60 Lakh and ₹75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS-7, whether AP Ltd., should treat it as a single contract or three separate contracts.

- (ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for ₹45 lakhs. On 31st March, 2018, the company found that it had already spent ₹32.50 lakhs on the construction. Additional cost of completion is estimated at ₹15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provision of AS-7?

(May 2019) (5 Marks)

Answer:

(i) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

Therefore, Mr. AP Ltd. is required to treat construction of each unit as a separate construction contract as the above-mentioned conditions of AS 7 are fulfilled in the given case.

(ii)

	₹ in lakhs
Cost of construction incurred till date	32.50
Add: Estimated future cost	<u>15.10</u>
Total estimated cost of construction	<u>47.60</u>

Percentage of completion till date to total estimated cost of construction

$$= (32.50/47.60) \times 100 = 68.28\%$$

Proportion of total contract value recognised as revenue for the year ended 31st March, 2018 per AS 7 (Revised)

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹45 \text{ lakh} \times 68.28\% = ₹30.73 \text{ lakhs.}$$

	(₹ in lakhs)
Total cost of construction	47.60
Less: Total contract price	<u>(45.00)</u>
Total foreseeable loss to be recognized as expense	<u>2.60</u>

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

Question 9

On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for ₹108 lakhs. On 31st March, 2019 the company found that it had already spent ₹83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Accounting for Construction Contracts."

(RTP November 2019)

Answer:

Calculation of foreseeable loss for the year ended 31st March, 2019 (as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2019	83.99
Prudent estimate of additional cost for completion	<u>36.01</u>
Total cost of construction	120.00
Less: Contract price	<u>(108.00)</u>
Foreseeable loss	<u>12.00</u>

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019.

Question 10

X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different Zonal offices of BPCL, the final approval for one outlet each in Zone A Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹490 lakhs. The agreement lays down values for each of the four outlets (₹88 + 132+ 160+ 110 lakhs) in addition to individual completion time. You are required to examine and comment whether X Ltd., will treat it as a single contract or four separate contracts.

[MTP October, 2019, 5 Marks]

Answer

As per AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

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

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

Question 11

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

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

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

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

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

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

Answer

The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in ₹ lakhs)

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

Working Note:

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

AS 9: Revenue Recognition

Question 1

A manufacturing company has the following stages of production and sale in manufacturing fine paper rolls:

Date	Activity	Cost to Date (₹)	Net Realizable Value (₹)
15.1.16	Raw Material	1,00,000	80,000
20.1.16	Pulp (WIP 1)	1,20,000	1,20,000
27.1.16	Rough & thick paper (WIP 2)	1,50,000	1,80,000
15.2.16	Fine Paper Rolls	1,80,000	3,50,000
20.2.16	Ready for sale	1,80,000	3,50,000
15.3.16	Sale agreed and invoice raised	2,00,000	3,50,000
02.4.16	Delivered and paid for	2,00,000	3,50,000

Explain the stage on which you think revenue will be generated and calculate how much would be net profit for year ending 31.3.16 on this product as per AS 9.

(RTP May 2018)

Answer:

According to AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Thus, sales will be recognized only when following two conditions are satisfied:

- (i) The sale value is fixed and determinable.
- (ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 15.3.2016 when sales are agreed upon at a price and goods are allocated for delivery purpose through invoice. The amount of net profit ₹1,50,000 (3,50,000 - 2,00,000) would be recognized in the books for the year ending 31st March, 2016.

Question 2

Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to ₹5 lakhs. The accountant of Ruby Ltd. booked ₹5 lakhs as interest income in the year ended 31st March, 2017.

Examine and discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

(MTP April 2018) (5 Marks)

Answer:

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of ₹5 lakhs should not be recognized in the books for the year ended 31st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of ₹5 lakhs as interest amount.

Question 3

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

- (i) On 15th January, 2017 garments worth ₹4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.
- (ii) Garments worth ₹1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.
- (iii) On 1st November, 2016 garments worth ₹2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9

(RTP November 2018)

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹3,00,000 (75% of ₹4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has

been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

Question 4

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

- (i) On 15th January, 2017 garments worth ₹4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31 st March, 2017.
- (ii) Garments worth ₹1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 1 5th April, 2017.
- (iii) On 1st November, 2016 garments worth ₹2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

(MTP August 2018) (5 Marks)

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹3,00,000 (75% of ₹4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

Question 5

Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to ₹5 lakhs. The accountant of Ruby Ltd. booked ₹5 lakhs as interest income in the year ended 31st March, 2017. Discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

(MTP October 2018) (5 Marks)

Answer:

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of ₹5 lakhs should not be recognized in the books for the year ended 31st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of ₹5 lakhs as interest amount.

Question 6

Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹15,00,000 ready for dispatch. Raj Ltd. accounted ₹15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

(RTP May, 2019)

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹30,00,000 ($₹5,00,000 \times 6$) and no part of the same is to be treated as Advance Received against Sales.

Question 7

Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to ₹5 lakhs. The accountant of Ruby Ltd. booked ₹5 lakhs as interest income in the year ended 31st March, 2017.

Examine and discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

(MTP-April 2019) (5 Marks)

Answer:

As per AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only

when it is reasonably certain that the ultimate collection will be made". In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of ₹5 lakhs should not be recognized in the books for the year ended 31st March, 2017. Thus the contention of accountant is incorrect. However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of ₹5 lakhs as interest amount.

Question 8

Given below are the following informations of M/s B.S. Ltd.

- (i) Goods of ₹50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.
- (ii) On 13-01-2018 goods of ₹1,25,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.
- (iii) ₹1,00,000 worth of goods were sold on approval basis 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of M/s B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9.

(May 2019) (5 Marks)

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete but delivery has been postponed at buyer's request. B.S. Ltd. should recognize the entire sale of ₹50,000 for the year ended 31st March, 2018.

Case (ii)

In case of consignment sale revenue should not be recognized until the goods are sold to a third party. 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹1,00,000 (80% of ₹1,25,000).

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹1,00,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹2,50,000 (50,000 + 1,00,000 + 1,00,000) will be recognized for the year ended 31st March, 2018 in the books of B.S. Ltd.

Question 9

The Board of Directors decided on 31.3.2019 to increase the sale price of certain items retrospectively from 1st January, 2019. In view of this price revision with effect from 1st January 2019, the company has to receive ₹15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. Accountant cannot make up his mind whether to include ₹15 lakhs in the sales for 2018-2019. Advise.

(RTP November 2019)

Answer:

Price revision was effected during the current accounting period 2018-2019. As a result, the company stands to receive ₹15 lakhs from its customers in respect of sales made from 1st January, 2019 to 31st March, 2019. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2018-2019 vide para 10 of AS 9.

Question 10

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 ₹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.

(November 2019, New Course, 5 Marks)

Answer

- (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.

Question 11

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2019:

- (i) On 15th January, 2019 garments worth ₹4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2019.
- (ii) Garments worth ₹1,95,000 were sold to Shine boutique on 25th March, 2019 but at the request of Shine Boutique, these were delivered on 15th April, 2019.
- (iii) On 1st November, 2018 garments worth ₹2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2018 and no approval or disapproval received for the remaining goods till 31st March, 2019.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

[MTP October, 2019, 5 Marks]

Answer

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹3,00,000 (75% of ₹4,00,000) for the year ended on 31.3.19. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2019.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2019 in the books of Fashion Ltd.

Question 12

The following information of Meghna Ltd. is provided:

- (i) Goods of ₹ 60,000 were sold on 20-3-2019 but at the request of the buyer these were delivered on 10-4-2019.
- (ii) On 15-1-2019 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2019.
- (iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.

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

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

(May 2020)

Answer:

As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

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

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

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

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

AS 17: Segment Reporting

Question 1

Calculate the segment results of a manufacturing organization from the following information:

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)				1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)				77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	
Transaction from C	6,000	40,000		
Transaction from A		18,000	82,000	

(RTP November 2018)

Answer:

Calculation of segment result

Segments	A ₹	B ₹	C ₹	Total ₹
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 : 4 : 2 basis)	50,000	40,000	20,000	1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Total segment revenue as per AS 17 (A)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000

Segments	A ₹	B ₹	C ₹	Total ₹
Transaction from A		18,000	82,000	1,00,000
Total segment expenses as per AS 17(B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	2,44,000	1,79,000	69,000	4,92,000

Question 2

A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to examine whether the policy adopted by the company is correct or not?

(RTP May 2018)

Answer:

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing intersegment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

Question 3

M/s Nathan Limited has three segments namely P, Q and R. The assets of the company are ₹15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores. Deferred tax assets included in the assets of each segment are P - ₹1 crore,

Q - ₹0.90 crores and R - ₹0.80 crores. The accountant contends all these three segments are reportable segments. Comment.

(May 2018) (4 Marks)

Answer

According to AS 17 "Segment Reporting", segment Assets do not include income tax assets.

Therefore, the revised total assets are 12.3 crores [₹15 - (₹1 + 0.9 + 0.8)].

Details of Segment wise assets

Segment P holds total assets of ₹3 crores (₹4 crores - ₹1 crores);

Segment Q holds ₹5.1 crores (₹6 crores - 0.9 crores);

Segment R holds ₹4.2 crores (₹5 crores - ₹0.8 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

Hence, the contention of the Accountant that all three segments are reportable segments is correct.

Question 4

Mac Ltd. gives the following data regarding to its six segments:

(₹ in lakhs)

Particulars	A	B	C	D	E	F	Total
Segment assets	80	160	60	40	40	20	400
Segment results	100	(380)	20	20	{20}	60	(200)
Segment revenue	600	1,240	160	120	160	120	2,400

The accountant contends that segments 'A' and 'B' alone are reportable segments. Is he justified in his view? Discuss in the context of AS-17 'Segment Reporting',

(4 Marks, November 2019, New Course)

Answer:

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

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

Its segment result whether profit or loss is 10% or more of combined result of all segments in profit; or combined result of all segments in loss, whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

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

On the basis of turnover criteria segments A and B are reportable segments.

On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of ₹ 400 lakhs).

On the basis of asset criteria, all segments except F are reportable segments.

Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17. Hence, the opinion of accountant is wrong.

Question 5

The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(₹ in Crore)

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

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

Answer

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

- (i) Its **revenue** from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- (ii) Its segment **result** whether profit or loss is 10% or more of:
 - (1) The combined result of all segments in profit; or
 - (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment **assets** are 10% or more of the total assets of all segments.

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

Accordingly,

- (a) On the basis of **revenue from sales** criteria, segment A is a reportable segment.
- (b) On the basis of the **result** criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of **asset** criteria, all segments except E are reportable segments.

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

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

AS 18: Related Party Disclosures

Question 1

Is remuneration paid to Board of Directors a related party transaction? Explain. AS 19 Leases
(RTP May 2018)

Answer:

In case of a Company, the Managing Director, whole time director, 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 Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per section 2(76) of Companies Act, 2013, a related party includes a director or his relative. Section 2(34) defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as related party transaction.

Question 2

Following transactions are disclosed as on 31st March, 2018:

- (i) Mr. Sumit, a relative of Managing Director, received remuneration of ₹2,10,000 for his services in the company for the period from 1st April, 2017 to 30th June, 2017. He left the service on 1st July, 2017.

Should the relative be identified as a related party as on closing date i.e. on 31-3-2018 for the purpose of AS 18.

- (ii) Goods sold amounting to ₹50 lakhs to associate company during the 1st quarter ended on 30th June, 2017. After that related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer.

Decide whether transactions of the entire year have to be disclosed as related party transactions.

(November 2018) (5 marks)

Answer

- (i) According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period, one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Mr. Sumit a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2018 as he received remuneration for his services in the company from 1st April, 2017 to 30th June, 2017 and this period comes under the reporting period.

- (ii) As per provision of AS 18, the transactions only for the period in which related party relationships exist need to be reported.

Hence, transactions of the entity with its associate company for the first quarter ending 30.06.2017 only are required to be disclosed as related party transactions. Transactions of the entire year need not be disclosed as related party transactions and transactions for the period (after 1st July) in which related party relationship did not exist need not be reported.

Hence transaction of sale of goods with the associate company for first quarter ending 30th June, 2017 for ₹50 Lakhs only are required to be disclosed as related party transaction on 31.3.18.

Question 3

Sun Ltd. sold goods for ₹50 lakhs to Moon Ltd. during financial year ended 31st March 2017 at normal selling price followed by Sun Ltd. The Managing Director of Sun Ltd. holds 75% shares of Moon Ltd. The Chief accountant of Sun Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. You are required to examine and advise whether the contention of the Chief Accountant is correct?

(RTP November 2018)

Answer:

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

In the given case, Sun Ltd. and Moon Ltd are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price.

Hence the contention of Chief Accountant of Sun Ltd is wrong.

Question 4

SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited?"

Answer:

Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, 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". In the above example, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to director instruct the board of directors does not qualify him as a key management personnel.

Question 5

Identify the related parties in the following cases as per AS-18

- (i) May Ltd. holds 61% shares of Sheetal Ltd.
Sheetal Ltd. holds 51% shares of Fair Ltd.
Care Ltd. holds 49% shares of Fair Ltd.
(Give your answer Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)
- (ii) Mr. Subhash Kumar is Managing Director of A Ltd. and also holds 72% capital of B Ltd. (B Ltd. is subsidiary of A Ltd.)

(May 2019) (5 Marks)

Answer:

- (i) (a) Reporting entity- Maya Ltd.
- Sheetal Ltd. (subsidiary) is a related party
 - Fair Ltd.(subsidiary) is a related party
- (b) Reporting entity- Sheetal Ltd.
- Maya Ltd. (holding company) is a related party
 - Fair Ltd. (subsidiary) is a related party
- (c) Reporting entity- Fair Ltd.
- Maya Ltd. (holding company) is a related party
 - Sheetal Ltd. (holding company) is a related party
 - Care Ltd. (investor/investing party) is a related party
- (d) Reporting entity- Care Ltd.
- Fair Ltd. (associate) is a related party
- (ii) Mr. Subhash Kumar is Key management personnel as he has the authority for planning, directing and controlling the activities of A Ltd. He also holds substantial interest in B Ltd. as he holds 72% capital of B Ltd. Thus, Mr. Subhash is related party for both A Ltd. and B Ltd. Moreover, as per the definition of related party relationship described in para 3 of AS 18, enterprises over which Subhash is able to exercise significant influence are also related parties. Thus, A Ltd. and B Ltd. will also be construed as related to each other.

Question 6

SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited”?

(RTP November 2019)

Answer:

Mr. A will not be considered as a related party of SP Hotels Limited in view of paragraph 3(c) of AS 18 which states, “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”. In the given case, in the absence of share ownership, Mr. A would not be considered to exercise significant influence on SP Hotels Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. A does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

Question 7

Arohi Ltd. sold goods for ₹ 90 lakhs to Anya Ltd. during financial year ended 31-3-2019. The Managing Director of Arohi Ltd. own 100% of Anya Ltd. The sales were made to Anya Ltd. at normal selling prices followed by Arohi Ltd. The Chief accountant of Arohi Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct? Comment in accordance with AS 18.

(May 2020)

Answer

As per AS 18 'Related Party Disclosures', Enterprises over which the key management personnel is able to exercise significant influence are related parties. This includes enterprises owned by directors or major shareholders of the reporting enterprise that have a member of key management in common with the reporting enterprise. In the given case, Arohi Ltd. and Anya Ltd. are related parties and hence disclosure of transaction between them is required irrespective of whether the transaction was done at normal selling price. Hence the contention of Chief Accountant of Arohi Ltd. is wrong.

AS 19: Leases

Question 1

A Ltd. sold JCB having WDV of ₹20 lakhs to B Ltd. for ₹24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if

- (i) Sale price of ₹24 lakhs is equal to fair value.
- (ii) Fair value is ₹20 lakhs and sale price is ₹24 lakhs.
- (iii) Fair value is ₹22 lakhs and sale price is ₹25 lakhs,
- (iv) Fair value is ₹25 lakhs and sale price is ₹18 lakhs.
- (v) Fair value is ₹18 lakhs and sale price is ₹19 lakhs.

(May 2018) (5 Marks)

Answer:

Following will be the treatment in the given cases:

- (i) When sale price of ₹24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹4 lakhs (i.e. 24 - 20) in its books.
- (ii) When fair value is ₹20 lakhs & sale price is ₹24 lakhs then profit of ₹4 lakhs is to be deferred and amortised over the lease period.
- (iii) When fair value is ₹22 lakhs & sale price is ₹25 lakhs, profit of ₹2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of ₹3 lakhs (25-22) is to be amortised/deferred over lease period.
- (iv) When fair value of leased machinery is ₹25 lakhs & sale price is ₹18 lakhs, then loss of ₹2 lakhs (20-18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.
- (v) When fair value is ₹18 lakhs & sale price is ₹19 lakhs, then the loss of ₹2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of ₹1 lakhs (19-18) should be amortised/deferred over lease period.

Question 2

WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipments costing ₹16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%.

You are required to calculate the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

(RTP May 2018)

Answer:

(i) Computation of annual lease payment to the lessor

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% ($₹1,33,500 \times 0.751$)	1,00,258.50
Fair value to be recovered from lease payments ($₹16,99,999.5 - ₹1,00,258.5$)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = $₹15,99,741/2.486$	6,43,500.00

(ii) Computation of Unearned Finance Income

	₹
Total lease payments ($₹6,43,500 \times 3$)	19,30,500
Add: Unguaranteed residual value	<u>1,33,500</u>
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) ($₹1,00,258.5 + ₹15,99,741$)	<u>(16,99,999.50)</u>
Unearned finance income	<u>3,64,000.50</u>

Question 3

A Ltd. sold machinery having WDV of ₹40 lakhs to B Ltd. for ₹50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Explain the accounting treatment as per AS 19 in the following cases:

- Sale price of ₹50 lakhs is equal to fair value.
- Fair value is ₹45 lakhs and sale price is ₹38 lakhs.
- Fair value is ₹40 lakhs and sale price is ₹50 lakhs.
- Fair value is ₹46 lakhs and sale price is ₹50 lakhs
- Fair value is ₹35 lakhs and sale price is ₹39 lakhs.

(MTP March 2018) (5 Marks)

Answer: Following will be the treatment in the given cases:

- When sales price of ₹50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹10 lakhs (i.e. 50-40) in its books.
- When fair value of leased machinery is ₹45 lakhs & sales price is ₹38 lakhs, then loss of ₹2 lakhs (40 - 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.
- When fair value is ₹40 lakhs & sales price is ₹50 lakhs then, profit of ₹10 lakhs is to be deferred and amortised over the lease period.
- When fair value is ₹46 lakhs & sales price is ₹50 lakhs, profit of ₹6 lakhs (46 - 40) to be immediately recognised in its books and balance profit of ₹4 lakhs (50 - 46) is to be amortised/deferred over lease period.
- When fair value is ₹35 lakhs & sales price is ₹39 lakhs, then the loss of ₹5 lakhs (40 - 35) to be immediately recognised by A Ltd. in its books and profit of ₹4 lakhs (39 - 35) should be amortised/deferred over lease period.

Question 4

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

You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(MTP April 2018) (5 Marks)

Answer:

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

Value of machinery

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

Calculation of finance charges for each year

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

Working Note:**Present value of minimum lease payments**

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

Question 5

ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being ₹10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays ₹3,50,000. The lessee has guaranteed a residual value of ₹40,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be ₹35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(RTP November 2018)

Answer:

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

Value of machinery

In the given case, fair value of the machinery is ₹10, 00,000 and the net present value of minimum lease payments is ₹10,01,497 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at fair value of ₹10,00,000.

Calculation of finance charges for each year

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

* The difference between this figure and guaranteed residual value is due to rounding off.

Working Note:**Present value of minimum lease payments**

Annual lease rental × PV factor	
₹3,50,000 × (0.8621 + 0.7432 + 0.6407 + 0.5523)	₹9,79,405
Present value of guaranteed residual value	
₹40,000 × (0.5523)	₹22,092
	₹10,01,497

Question 6

Sun Limited wishes to obtain a machine costing ₹30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Star Ltd., for a lease rental for ₹3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Sun Limited is not sure about the treatment of these lease rentals and seeks your advice. You are required to explain the necessary accounting treatment in line with AS 19. (use annuity factor at @ 15% for 3 years as 3.36)

(MTP August 2018) (5 Marks)

Answer:

As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV - Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 5)	3.36 (approx.)
Present Value of minimum lease payments (₹3 lakhs each year)	₹10.08 lakhs (approx.)

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for five years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Question 7

A Ltd. sold machinery having WDV of ₹40 lakhs to B Ltd. for ₹50 lakhs and the same machinery was leased back by B Ltd. to A Ltd. The lease back is operating lease. Comment if –

- Sale price of ₹50 lakhs is equal to fair value.
- Fair value is ₹45 lakhs and sale price is ₹38 lakhs.
- Fair value is ₹40 lakhs and sale price is ₹50 lakhs.
- Fair value is ₹46 lakhs and sale price is ₹50 lakhs
- Fair value is ₹35 lakhs and sale price is ₹39 lakhs.

(MTP October 2018) (5 Marks)

Answer:

Following will be the treatment in the given cases:

- When sales price of ₹50 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹10 lakhs (i.e. 50 – 40) in its books.
- When fair value of leased machinery is ₹45 lakhs & sales price is ₹38 lakhs, then loss of ₹2 lakhs (40 – 38) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.
- When fair value is ₹40 lakhs & sales price is ₹50 lakhs then, profit of ₹10 lakhs is to be deferred and amortised over the lease period.
- When fair value is ₹46 lakhs & sales price is ₹50 lakhs, profit of ₹6 lakhs (46-40) to be immediately recognised in its books and balance profit of ₹4 lakhs (50-46) is to be amortised/deferred over lease period.

- (v) When fair value is ₹35 lakhs & sales price is ₹39 lakhs, then the loss of ₹5 lakhs (40 -35) to be immediately recognised by A Ltd. in its books and profit of ₹4 lakhs (39 -35) should be amortised/deferred over lease period.

Question 8

Aksat International Limited has given a machinery on lease for 36 months, and its useful life is 60 months. Cost & fair market value of the machinery is ₹5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹50,000. IRR of investment is 10% and present value of annuity factor of ₹1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹1 due at the end of 3rd year at 10% IRR is 0.7513.

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

(RTP May, 2019)

Answer:

Determination of Nature of Lease

Present value of unguaranteed residual value at the end of 3rd year

$$= ₹50,000 \times 0.7513$$

$$= ₹37,565$$

Present value of lease payments

$$= ₹5,00,000 - ₹37,565$$

$$= ₹4,62,435$$

The percentage of present value of lease payments to fair value of the equipment is

$$(\₹4,62,435 / ₹5,00,000) \times 100 = 92.487\%$$

Since, lease payments substantially covers the major portion of the fair value; the lease constitutes a finance lease.

Calculation of Unearned Finance Income

Annual lease payment = ₹4,62,435 / 2.4868 = ₹1,85,956 (approx.)

Gross investment in the lease = Total minimum lease payments + unguaranteed residual value

$$= (\₹1,85,956 \times 3) + ₹50,000$$

$$= ₹5,57,868 + ₹50,000 = ₹6,07,868$$

Unearned finance income

$$= \text{Gross investment} - \text{Present value of minimum lease payments and unguaranteed residual value}$$

$$= ₹6,07,868 - ₹5,00,000 = ₹1,07,868$$

Question 9

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

You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(MTP-March 2019) (5 Marks)

Answer:

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

Value of machinery

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

Calculation of finance charges for each year

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

* The difference between this figure and guaranteed residual value (₹50,000) is due to rounding off.

Working Note:**Present value of minimum lease payments**

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

Question 10

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

You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.

(MTP-April 2019) (5 Marks)

Answer:

As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds

the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

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

Calculation of finance charges for each year

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

Working Note:

Present value of minimum lease payments

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

* The difference between this figure and guaranteed residual value (₹50,000) is due to rounding off.

Question 11

Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each years, lessee pays ₹3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of ₹70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only ₹25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are: 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

(May 2019) (5 Marks)

Answer:

According to para 11 of AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the fair value of the leased asset at the inception of the finance lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and a liability should be the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment ₹	Internal rate of return (Discount rate @10%)	Present value ₹
1	3,50,000	0.909	3,18,150
2	3,50,000	0.826	2,89,100
3	3,50,000	0.751	2,62,850
4	<u>4,20,000</u>	0.683	<u>2,86,860</u>
Total	<u>14,70,000</u>		<u>11,56,960</u>

* Minimum Lease Payment of 4th year includes guaranteed residual value amounting i.e. 3,50,000 + 70,000 = 4,20,000.

Present value of minimum lease payments ₹11,56,960 is more than fair value at the inception of lease i.e. ₹11,50,000, therefore, the lease liability and machinery should be recognized in the books at ₹11,50,000 as per AS 19.

Question 12

Sun Limited wishes to obtain a machine costing ₹30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for ₹3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advice. (use annuity factor at @ 15% for 3 years as 3.36)

(RTP November 2019)

Answer:

As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment* amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	3.36
Present Value of minimum lease payments (₹3 lakhs each year)	₹10.08 lakhs (approx.)

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

- In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

Question 13

Classify the following into either operating lease or finance lease with reason:

- (1) Economic life of asset is 10 years, lease term is 9 years, but asset is not acquired at the end of lease term.
- (2) Lessee has option to purchase the asset at lower than fair value at the end of lease term.
- (3) Lease payments should be recognized as an expense in the statement of Profit & Loss of a lessee.
- (4) Present Value (PV) of Minimum Lease Payment (MLP) = "X". Fair value of the asset is "Y". And $X = Y$.
- (5) Economic life of the asset is 5 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.

(November 2019, New Course, 5 Marks)

Answer

- (i) The lease will be classified as a finance lease, since a substantial portion of the life of the asset is covered by the lease term.
- (ii) If it becomes certain at the inception of lease itself that the option will be exercised by the lessee, it is a Finance Lease.
- (iii) It is an operating lease under which lease payments are recognized as expense in the profit and loss account of lessee to have better matching between cost and revenue.
- (iv) The lease is a finance lease if $X = Y$, or where X substantially equals Y.
- (v) Since the asset is of special nature and has been procured only for the use of lessee, it is a finance lease.

Question 14

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

[MTP October, 2019, 5 Marks]

Answer

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

Value of machinery

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

Calculation of finance charges for each year

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

Working Note:**Present value of minimum lease payments**

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

Question 15

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

Answer

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

Value of machinery

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

Calculation of finance charges for each year

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

Working Note:**Present value of minimum lease payments**

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

AS 20: Earnings Per Share

Question 1

- (a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹ 80 Lakh and Preference share capital is ₹40 Lakh.

(RTP November 2019)

Answer:

- (a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.
- (b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹ 80 Lakhs and Preference share capital is ₹ 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
M	=	$\frac{2}{3} \times \frac{30}{100}$	=	$\frac{3}{15}$
N	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
O	=	$\frac{2}{3} \times \frac{20}{100}$	=	$\frac{2}{15}$
X	=	$\frac{1}{3} \times \frac{40}{100}$	=	$\frac{2}{15}$
Y	=	$\frac{1}{3} \times \frac{30}{100}$	=	$\frac{1}{10}$
Z	=	$\frac{1}{3} \times \frac{20}{100}$	=	$\frac{1}{15}$
K	=	$\frac{1}{3} \times \frac{10}{100}$	=	$\frac{1}{30}$

Question 2

As at 1st April, 2016 a company had 6,00,000 equity shares of ₹10 each (₹5 paid up by all shareholders). On 1st September, 2016 the remaining ₹5 was called up and paid by all shareholders except one shareholder having 60,000 equity shares. The net profit for the year ended 31st March, 2017 was ₹21,96,000 after considering dividend on preference shares and dividend distribution tax on such dividend totalling to ₹3,40,000.

Compute Basic EPS for the year ended 31st March, 2017 as per Accounting Standard 20 "Earnings Per Share".

(May 2018) (5 Marks)

Answer:

Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}} = \frac{21,96,000}{4,57,500 \text{ Shares (as per working note)}} = \text{Rs. 4.80 per share}$$

Working Note:

Calculation of weighted average number of equity shares

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

Date	No. of equity shares	Amount paid per share	Weighted average no. of equity shares
	₹	₹	₹
1.4.2016	6,00,000	5	$6,00,000 \times 5/10 \times 5/12 = 1,25,000$
1.9.2016	5,40,000	10	$5,40,000 \times 7/12 = 3,15,000$
1.9.2016	60,000	5	$60,000 \times 5/10 \times 7/12 = 17,500$
Total weighted average equity shares			4,57,500

Question 3

L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹80 Lakh and Preference share capital is ₹40 Lakh.

(RTP May 2018)

Answer:

L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid-up equity share capital of the company is ₹80 Lakhs and Preference share capital is ₹40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$\begin{aligned} L &= 2/3 \times 30/100 = 3/15 \\ M &= 2/3 \times 30/100 = 3/15 \\ N &= 2/3 \times 20/100 = 2/15 \\ O &= 2/3 \times 20/100 = 2/15 \\ X &= 1/3 \times 40/100 = 2/15 \\ Y &= 1/3 \times 30/100 = 1/10 \\ Z &= 1/3 \times 20/100 = 1/15 \\ K &= 1/3 \times 10/100 = 1/30 \end{aligned}$$

Question 4

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

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

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

(RTP May 2018)

Answer: Computation of basic earnings per share

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

$$₹75,00,000/10,00,000 = ₹7.50 \text{ per share}$$

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

Adjusted net profit for the current year

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

Number of equity shares resulting from conversion of debentures

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

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

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

Diluted earnings per share

$$= 80,60,000/11,10,000 = ₹7.26 \text{ per share}$$

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

Question 5

From the following information, you are required to compute the basic and adjusted Earnings per share:

Net profit for 2015-16	11 lakh
Net profit for 2016-17	15 lakh
No. of shares issued before rights issue	5 lakhs
Right issue	One for every 5 held
Right issue price	15 per share
Last date of exercising right option	1-06-2016
Fair value of shares before right issue	21 per share

(MTP March 2018) (5 Marks)

Answer:

Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(\text{₹ } 21.00 \times 500000 \text{ shares}) + (\text{₹ } 15.00 \times 100000 \text{ shares})}{500000 \text{ shares} + 100000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹20.00

(a) Computation of adjustment factor

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

Computation of earnings per share

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (₹11,00,000/5,00,000 shares)	₹2.20	
EPS for the year 2015-16 restated for rights issue: [₹11,00,000/(5,00,000 shares x 1.05)]	₹2.10	
EPS for the year 2016-17 including effects of rights issue ₹15,00,000 (500000 x 1.05 x 2 /12) + (600000 x 10 /12)		₹2.55

Question 6

From the following information given by Sampark Ltd., Calculate Basis EPS and Diluted EPS as per AS 20:

	₹
Net Profit for the current year	2,50,00,000
No. of Equity Shares Outstanding	50,00,000
No. of 12% convertible debentures of 100 each	50,000
Each debenture is convertible into 8 Equity Shares	
Interest expense for the current year	6,00,000
Tax saving relating to interest expense (30%)	1,80,000

(November 2018) (5 marks)

Answer:

(a) Calculation of Basic Earning Per Share

$$\begin{aligned}\text{Basic EPS} &= \frac{\text{Net Profit for the current year}}{\text{No. of Equity Shares}} \\ &= \frac{2,50,00,000}{50,00,000}\end{aligned}$$

$$\text{Basic EPS per share} = ₹5$$

Calculation of Diluted Earning Per Share

$$\text{Diluted EPS} = \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average no. of Equity Shares}}$$

Adjusted net profit for the current year	₹
Net profit for the current year	2,50,00,000
Add: Interest expenses for the current year	6,00,000
Less: Tax saving relating to Tax Expenses	(1,80,000)
	2,54,20,000

No. of equity shares resulting from conversion of debentures: 4,00,000 Shares

Weighted average no. of equity shares used to compute diluted EPS: (50,00,000 + 4,00,000) = 54,00,000 Equity Shares

Diluted earnings per share: (2,54,20,000/54,00,000) = ₹4.71 (Approx.)

Question 7

Equity capital is held by L, M, N and O in the proportion of 30:40:20:10. A, B, C and D hold Preference share capital in the proportion of 40:30:10:20. If the paid up Equity Share capital of the company is ₹60 lakhs and Preference share capital is ₹30 lakhs, find the voting rights of shareholders (in percentage) in case of resolution of winding up of the company.

(November 2018) (5 marks)

Answer:

L, M, N and O hold Equity capital is held by in the proportion of 30:40:20:10 and A, B, C and D hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is ₹60 Lakhs and Preference share capital is ₹30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be—

$$\begin{aligned}L &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} = 20\% \\ M &= \frac{2}{3} \times \frac{40}{100} = \frac{4}{15} = 26.67\% \\ N &= \frac{2}{3} \times \frac{20}{100} = \frac{2}{15} = 13.33\% \\ O &= \frac{2}{3} \times \frac{10}{100} = \frac{1}{15} = 6.67\% \\ A &= \frac{1}{3} \times \frac{40}{100} = \frac{4}{30} = 13.33\% \\ B &= \frac{1}{3} \times \frac{30}{100} = \frac{3}{30} = 10\% \\ C &= \frac{1}{3} \times \frac{10}{100} = \frac{1}{30} = 3.33\% \\ D &= \frac{1}{3} \times \frac{20}{100} = \frac{2}{30} = 6.67\%\end{aligned}$$

Question 8

Explain the meaning of equity shares with differential rights. Can preference shares be also issued with differential rights?

(RTP November 2018)

Answer:

Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. No; the preference shares cannot be issued with differential rights.

Question 9

E, F, G and H hold Equity Capital in Alpha Co. in the proportion of 30:30:20:20. S, T, U and V hold preference share capital in the proportion of 40:30:10:20. If the paid up capital of the company is ₹120 Lakh and Preference share capital is ₹60 Lakh, You are required to calculate their voting rights in case of resolution of winding up of the company.

(RTP November 2018)

Answer:

E, F, G and H hold Equity capital is held by in the proportion of 30:30:20:20 and S, T, U and V hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is ₹120 Lakhs and Preference share capital is ₹60 Lakhs & (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$\begin{aligned}
 E &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \\
 F &= \frac{2}{3} \times \frac{30}{100} = \frac{3}{15} \\
 G &= \frac{2}{3} \times \frac{20}{100} = \frac{2}{15} \\
 H &= \frac{2}{3} \times \frac{20}{100} = \frac{2}{15} \\
 S &= \frac{1}{3} \times \frac{40}{100} = \frac{2}{15} \\
 T &= \frac{1}{3} \times \frac{30}{100} = \frac{1}{10} \\
 U &= \frac{1}{3} \times \frac{10}{100} = \frac{1}{30} \\
 V &= \frac{1}{3} \times \frac{20}{100} = \frac{1}{15}
 \end{aligned}$$

Question 10

The following information is available for TON Ltd. for the accounting year 2015-16 and 2016-17:

	Net profit for	₹
Year	2015-16	35,00,000
Year	2016-17	45,00,000

No of shares outstanding prior to right issue 15,00,000 shares.

Right issue : One new share for each 3 shares outstanding i.e. 5,00,000 shares.
 : Right Issue price ₹25
 : Last date to exercise rights 31st July, 2016

Fair value of one equity share immediately prior to exercise of rights on 31.07.2016 is ₹35.

You are required to compute:

- Basic earnings per share for the year 2015-16.
- Restated basic earnings per share for the year 2015-16 for right issue.
- Basic earnings per share for the year 2016-17.

(RTP November 2018)

Answer: Computation of Basic Earnings per Share

		Year 2015-16 (₹)	Year 2016-17 (₹)
(i)	EPS for the year 2015-16 as originally reported = Net profit for the year attributable to equity share holder/weighted average number of equity shares outstanding during the year ₹35,00,000/15,00,000 shares	2.33	
(ii)	EPS for the year 2015-16 restated for the right issue ₹35,00,000/15,00,000 shares × 1.08	2.16	
(iii)	EPS for the year 2016-17 (including effect of right issue) ₹45,00,000/[(15,00,000 × 1.08 × 4/12) + (20,00,000 × 8/12)]		2.40

Working Notes:

- Computation of theoretical ex-rights fair value per share =

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$[(₹35 \times 15,00,000) + [₹25 \times 5,00,000)] / (15,00,000 + 5,00,000) = ₹32.5$$
- Computation of adjustment factor**
 Fair value per share prior to exercise of rights Theoretical ex-rights value per share
 = ₹35/32.50 = 1.08 (approx.)

Question 11

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017:

Net Profit for the year after tax: ₹75,00,000
 Number of Equity Shares of ₹10 each outstanding: 10,00,000
 Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

(MTP October 2018) (5 Marks)

Answer:**Computation of basic earnings per share**

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

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

Computation of diluted earnings per share

Adjusted net profit for the current year
 Weighted average number of equity shares

Adjusted net profit for the current year

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

Number of equity shares resulting from conversion of debentures

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

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

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

Diluted earnings per share

= 80,60,000/11,10,000 = ₹7.26 per share

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

Question 12

L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to identify the voting rights of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is ₹80 Lakh and Preference share capital is ₹40 Lakh.

(MTP October 2018) (5 Marks)

Answer:

L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid -up equity share capital of the company is ₹80 Lakhs and Preference share capital is ₹40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	2/3X30/100	=	3/15
M	=	2/3X30/100	=	3/15
N	=	2/3X20/100	=	2/15
O	=	2/3X20/100	=	2/15
X	=	1/3X40/100	=	2/15
Y	=	1/3X30/100	=	1/10
Z	=	1/3X20/100	=	1/15
K	=	1/3X10/100	=	1/30

Question 16

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

(RTP May, 2019)

Answer:

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

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

- (a) The articles of association of the company authorizes the issue of shares with differential rights;
- (b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- (c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
- (d) The company having consistent track record of distributable profits for the last three years;
- (e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- (g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;
- (h) The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Question 17

"While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS.

Also calculate the diluted EPS from the following information:

Net Profit for the current year (After Tax)	₹1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹100 each	1,00,000
(Each Debenture is compulsorily S fully convertible into 10 equity shares issued at the mid of the year)	
Debenture interest expense for the current year	₹5,00,000
Assume applicable Income Tax rate @ 30%	

(RTP May, 2019)

Answer:

As per AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares for calculation of diluted earnings per share. Hence, "in calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period."

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

Adjusted net profit for the current year

	₹
Net profit for the current year (after tax)	1,00,00,000
Add: Interest expense for the current year	5,00,000
Less: Tax relating to interest expense (30% of ₹5,00,000)	(1,50,000)
Adjusted net profit for the current year	1,03,50,000

Weighted average number of equity shares

Number of equity shares resulting from conversion of debentures

$$= \frac{1,00,000 \times 100}{10} = 10,00,000 \text{ Equity shares}$$

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

$$= [(10,00,000 \times 12) + (10,00,000 \times 6)] / 12 = 15,00,000 \text{ equity shares}$$

Diluted earnings per share = ₹1,03,50,000 / 15,00,000 shares = ₹6.90 per share

Question 18

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2019: Net Profit for the year after tax: ₹37,50,000

Number of Equity Shares of ₹10 each outstanding: ₹5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of ₹100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to calculate Basic and Diluted Earnings Per Share (EPS).

(RTP November 2019)

Answer:**Computation of basic earnings per share**

Net profit for the current year / Weighted average number of equity shares outstanding during the year = ₹37,50,000 / 5,00,000 = ₹7.50 per share

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

Adjusted net profit for the current year

	₹
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of ₹4,00,000)	(1,20,000)
Adjusted net profit for the current year	<u>40,30,000</u>

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

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

= 5,55,000 shares (5,00,000 + 55,000)

Diluted earnings per share

= 40,30,000 / 5,55,000 = ₹7.26 per share

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

Question 19

Following information is supplied by K Ltd.

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹98

Last date of exercising rights - 30-06-2018.

Fair value of one equity share immediately prior to exercise of right on 30-06-2018 is ₹102.

Net Profit to equity shareholders:

2017-2018 – ₹50,00,000

2018-2019 – ₹75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earning per Share.

(November 2019, New Course, 5 Marks)

Answer:

$$\frac{\text{Fair value of shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}}$$

$$\frac{102 \times 2,50,000 \text{ Shares} + ₹98 \times 1,00,000 \text{ shares}}{3,50,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex - rights value per share}} = 102 / 100.86 = 1.01$$

Computation of earnings per share:

EPS for the year 2017-18 as originally reported: ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 2017-18 restated for rights issue: = ₹ 50,00,000/ (2,50,000 shares x 1.01)
= ₹ 19.80

EPS for the year 2018-19 including effects of rights issue:

EPS = 75,00,000/3,25,625* = ₹ 23.03

* $[(2,50,000 \times 1.01 \times 3/12) + (3,50,000 \times 9/12)] = 63,125 + 2,62,500 = 3,25,625 \text{ shares}$

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

Question 20

W, X, Y and Z hold equity share capital in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. If the paid up capital of the company is ₹40 Lakh and Preference share capital is ₹20 Lakh, Find their voting rights in case of resolution of winding up of the company.

[MTP October, 2019, 5 Marks]

Answer

W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is ₹40 Lakhs and Preference share capital is ₹20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$W = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$X = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$Y = \frac{2}{3} \times \frac{10}{100} = \frac{1}{15}$$

$$Z = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$A = \frac{1}{3} \times \frac{30}{100} = \frac{1}{10}$$

$$B = \frac{1}{3} \times \frac{40}{100} = \frac{2}{15}$$

$$C = \frac{1}{3} \times \frac{20}{100} = \frac{1}{15}$$

$$D = \frac{1}{3} \times \frac{10}{100} = \frac{1}{30}$$

Question 21

- Can preference shares be also issued with differential rights? Explain in brief.
- Explain the conditions under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

(May 2020)

Answer

- No. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued with differential rights.
- In exercise of the power conferred under Section 43(a)(ii), the central government announced Rule 4 under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

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

- (a) The articles of association of the company authorizes the issue of shares with differential rights;
- (b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- (c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
- (d) The company having consistent track record of distributable profits for the last three years;
- (e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- (g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;
- (h) The company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Question 22

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

Net Profit for the year after tax: ₹ 75,00,000

Number of Equity Shares of ₹ 10 each outstanding: ₹ 10,00,000

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

(May 2020)

Answer:

Computation of basic earnings per share

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

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

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

Adjusted net profit for the current year

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

Number of equity shares resulting from conversion of debentures

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

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

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

Diluted earnings per share

= ₹ 80,60,000 / 11,10,000

= ₹ 7.26 per share

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

AS 22: Accounting for Taxes on Income

Question 1

Write short note on Timing difference and permanent Difference as per AS 22.

(May 2019) (5 Marks)

Answer:

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. For e.g., Depreciation, Bonus, etc.

Question 2

Rohit Ltd. has provided the following information

Particulars	₹
Depreciation as per accounting records	2,50,000
Depreciation as per tax records	5,50,000
Unamortised preliminary expenses as per tax record	40,000

There is adequate evidence of future profit sufficiency. How much deferred tax assets/liability should be recognized as transition adjustment when the tax rate is 50%?

(May 2018) (5 Marks)

Answer:

Table showing calculation of deferred tax asset/liability

Particulars	Amount ₹	Timing difference	Deferred tax	Amount @ 50% ₹
Excess depreciation as per tax records (₹5,50,000 - ₹2,50,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortised preliminary expenses as per tax records	40,000	Timing	Deferred tax asset	(20,000)
Net deferred tax liability				1,30,000

Net deferred tax liability amounting ₹1,30,000 should be recognized as transition adjustment.

Question 3

Is it permissible not to recognize deferred tax liability on the ground that the Company expects that there will be losses both for accounting and tax purposes in near future? You are required to give advise to the company.

(RTP May 2019)

Answer:

The Company should provide for deferred tax liability on the timing differences irrespective for the fact that these timing differences will reverse in the period in which the Company expects to be in loss both from the accounting as well as tax point of view. It may, however, be added that the deferred tax liability recognized at the balance sheet date will give rise to future taxable income at the time of reversal thereof.

Question 4

Beta Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is ₹1,000 lakhs and ₹2,000 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by ₹50 lakhs. Assuming tax rate of 40%, you are required to compute to the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

(RTP November 2018)

Answer:

As per para 13 of Accounting Standard (AS) 22, Accounting for Taxes on Income", deferred tax in respect of timing differences which originate during the tax holiday period and reverse during the tax holiday period, should not be recognized to the extent deduction from the total income of an enterprise is allowed during the tax holiday period as per the provisions of sections 10A and 10B of the Income-tax Act. Deferred tax in respect of timing differences which originate during the tax holiday period but reverse after the tax holiday period should be recognized in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence. For this purpose, the timing differences which originate first should be considered to reverse first.

Out of ₹1,000 lakhs depreciation, timing difference amounting ₹400 lakhs ($₹50 \text{ lakhs} \times 8 \text{ years}$) will reverse in the tax holiday period and therefore, should not be recognized. However, for ₹600 lakhs ($₹1,000 \text{ lakhs} - ₹400 \text{ lakhs}$), deferred tax liability will be recognized for ₹240 lakhs (40% of ₹600 lakhs) in first year. In the second year, the entire amount of timing difference of ₹2,000 lakhs will reverse only after tax holiday period and hence, will be recognized in full. Deferred tax liability amounting ₹800 lakhs (40% of ₹2,000 lakhs) will be created by charging it to profit and loss account and the total balance of deferred tax liability account at the end of second year will be ₹1,040 lakhs (240 lakhs + 800 lakhs).

Question 5

Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to calculate the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%.

(RTP May 2018)

Answer:

Table showing calculation of deferred tax asset/liability

Particulars	Amount ₹	Timing differences	Deferred tax	Amount @ 50% ₹
Excess depreciation as per tax records (₹5,00,000 - ₹2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortized preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

Question 6

Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(MTP March 2019) (5 Marks)

Answer:

Gamma Limited
Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	NIL	NIL
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

Question 7

Gamma Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue from these contracts on percentage of completion method for financial statements during 2014-2015, 2015-2016 and 2016-2017 for ₹11,00,000, ₹16,00,000 and ₹21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of ₹7,00,000, ₹18,00,000 and ₹23,00,000 for the years 2014-2015, 2015-2016 and 2016-2017 respectively. Income-tax rate is 35%.

You are required to compute the amount of deferred tax asset/liability for the years 2014-2015, 2015-2016 and 2016-2017. Also describe how this amount of deferred tax asset/liability will be disclosed in the balance sheet of Omega Limited as per provisions of AS 22.

(MTP March 2018) (5 Marks)

Answer:

Gamma Limited

Calculation of Deferred Tax Asset/Liability

Year	Accounting Income	Taxable Income	Timing Difference (balance)	Deferred Tax Liability (balance)
2014-2015	11,00,000	7,00,000	4,00,000	1,40,000
2015-2016	16,00,000	18,00,000	2,00,000	70,000
2016-2017	21,00,000	23,00,000	Nil	Nil
	48,00,000	48,00,000		

As per AS 22, deferred tax assets and liabilities should be distinguished from assets and liabilities representing current tax for the period. Deferred tax assets and liabilities should be disclosed under a separate heading in the balance sheet of the enterprise, separately from current assets and current liabilities. The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balances should be disclosed in the notes to accounts.

Question 8

Sheetal Ltd. has provided the following information for the year ended 31st March, 2019;

Particulars	Amount (₹)
Accounting profit	9,00,000
Boot profit as per MAT	5,25,000
Profit as per Income Tax Act	95,000
Tax rate	30%
MAT rate	7.5%

You are required to calculate the deferred tax asset/liability as per AS-22 and amount of tax to be debited to the profit and loss account for the year.

(5 Marks, November 2019, New Course)

Answer

Tax as per accounting profit	$9,00,000 \times 30\% = ₹ 2,70,000$
Tax as per Income-tax Profit	$95,000 \times 30\% = ₹ 28,500$
Tax as per MAT	$5,25,000 \times 7.50\% = ₹ 39,375$
Tax expense= Current Tax +Deferred Tax	
₹ 2,70,000 = ₹ 28,500+ Deferred tax	

Deferred Tax liability as on 31-03-2019

$$= ₹ 2,70,000 - ₹ 28,500 = ₹ 2,41,500$$

Amount of tax to be debited in Profit and Loss account for the year 31 -03-2019

Current Tax + Deferred Tax liability + Excess of MAT over current tax

$$= ₹ 28,500 + ₹ 2,41,500 + ₹ 10,875 (39,375 - 28,500)$$

$$= ₹ 2,80,875$$

Question 9

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

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

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

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

There were no additions to Fixed Assets during the year.

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

Answer**Impact of various items in terms of AS 22 deferred tax liability/deferred tax asset**

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

AS 24: Discontinuing Operations

Question 1

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.

You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

(RTP May 2018)

Answer:

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a single plan, is:
 - (1) disposing of substantially in its entirety,
 - (2) disposing of piecemeal, or
 - (3) terminating through abandonment; and
- (ii) that represents a separate major line of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

Question 2

What are the initial disclosure requirements of AS 24 for discontinuing operations?

(November 2018) (5 marks)

Answer:

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

Question 3

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

(RTP November 2018)

Answer:

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

- (i) Gradual or evolutionary phasing out of a product line or class of service;
- (ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (iv) Closing of a facility to achieve productivity improvements or other cost savings.

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

Question 4

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to examine whether it should it be treated as discontinuing operation as per AS 24?

(MTP August 2018) (5 Marks)

Answer:

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a **single plan**, is:
 - (1) disposing of substantially in its entirety,
 - (2) disposing of piecemeal, or
 - (3) terminating through abandonment; and
- (ii) that represents a separate **major line** of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation

Question 5

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to advise whether it should it be treated as discontinuing operation as per AS 24?

(MTP-April 2019) (5 Marks)

Answer:

As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

- (i) that the enterprise, pursuant to a **single plan**, is:
 - (1) disposing of substantially in its entirety,
 - (2) disposing of piecemeal, or
 - (3) terminating through abandonment; and

- (ii) that represents a separate major line of business or geographical area of operations; and
- (iii) that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- (i) the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- (ii) the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

Question 6

- (i) What are the disclosure and presentation requirements of AS 24 for discontinuing operations?
- (ii) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

(May 2020)

Answer:

- (i) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event (as defined in paragraph 15) occurs:
 - (a) a description of the discontinuing operation(s);
 - (b) the business or geographical segment(s) in which it is reported as per AS 17, Segment Reporting;
 - (c) the date and nature of the initial disclosure event;
 - (d) the date or period in which the discontinuance is expected to be completed if known or determinable;
 - (e) the carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled;
 - (f) the amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period;
 - (g) the amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto; and
 - (h) the amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.
- (ii) Para 3 of AS 24 "Discontinuing Operations" explains the criteria for determination of discontinuing operations. According to Paragraph 9 of AS 24, examples of activities that do not necessarily satisfy criterion (a) of paragraph 3, but that might do so in combination with other circumstances, include:

- (i) Gradual or evolutionary phasing out of a product line or class of service;
- (ii) Discontinuing, even if relatively abruptly, several products within an ongoing line of business;
- (iii) Shifting of some production or marketing activities for a particular line of business from one location to another; and
- (iv) Closing of a facility to achieve productivity improvements or other cost savings.

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

AS 26: Intangible Assets

Question 1

A company acquired a patent at a cost of ₹160 lakhs for a period of 5 years and the product life cycle is also 5 years. The company capitalized the cost and started amortising the asset at ₹16 lakhs per year based on the economic benefits derived from the product manufactured under the patent. After 2 years it was found that the product life cycle may continue for another 5 years from then (the patent is renewable and the company can get it renewed after 5 years). The net cash flows from the product during these 5 years were expected to be ₹50 lakhs, ₹30 lakhs, ₹60 lakhs, ₹70 lakhs and ₹40 lakhs. Find out the amortization cost of the patent for each of the years.

(May 2018) (5 Marks)

Answer:

Company amortized ₹16,00,000 per annum for the first two years. Hence, Amortization for the first two years (₹16,00,000 × 2) = ₹32,00,000.

Remaining carrying cost after two years = ₹1,60,00,000 - ₹32,00,000
= ₹1,28,00,000

Since after two years it was found that the product life cycle may continue for another 5 years, hence the remaining carrying cost ₹128 lakhs will be amortized during next 5 years in the ratio of net cash arising from the sale of the products of Fast Limited.

The amortization cost of the patents may be computed as follows:

Year	Net cash flows	Amortization Ratio	Amortization Amount ₹
I	-	0.1	16,00,000
II	-	0.1	16,00,000
III	50,00,000	0.2	25,60,000
IV	30,00,000	0.12	15,36,000
V	60,00,000	0.24	30,72,000
VI	70,00,000	0.28	35,84,000
VII	40,00,000	0.16	20,48,000
Total	250,00,000	1.000	160,00,000

Question 2

K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

You are required to advise the Company as per the applicable Accounting Standard, AS 29 Provisions, Contingent Liabilities and Contingent Assets

(RTP May 2018)

Answer:

As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ₹40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2017.

Question 3

A 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.

You are required to determine the amortization method in line with AS 26.

(MTP April 2018) (5 Marks)

Answer:

As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-a-vis production is determined reliably. A Ltd. should amortize the license fee of ₹200 lakhs as under:

Year	Net operating Cash inflow (₹)	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24

Year	Net operating Cash inflow (₹)	Ratio	Amortize amount (₹ in lakhs)
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	3,200	0.11 (bal.)	22
	27,400	1.00	200

Question 4

Desire Ltd. acquired a patent at a cost of ₹1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on SLM. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹45,00,000, ₹42,00,000, ₹40,00,000, ₹38,00,000 and ₹35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows).

You are required to compute the amortization cost of the patent for each of the years (1st year to 7th year).

(RTP November 2018)

Answer:

Desire Limited amortised ₹20,00,000 per annum for the first two years i.e. ₹40,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows ₹	Amortization Ratio	Amortization Amount ₹
I	-	0.200	20,00,000
II	-	0.200	20,00,000
III	45,00,000	0.225	13,50,000
IV	42,00,000	0.21	12,60,000
V	40,00,000	0.20	12,00,000
VI	38,00,000	0.19	11,40,000
VII	35,00,000	0.175	10,50,000
Total	2,00,00,000	1.000	1,00,00,000

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹60,00,000 has been amortized in the ratio of net cash flows arising from the product of Desire Ltd.

Question 5

A Company with a turnover of ₹375 crores and an annual advertising budget of ₹3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹37.5 crores from the new product. The company had debited to its

Profit and Loss account the total expenditure of ₹3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct?

(RTP May, 2019)

Answer:

According to AS 26 'Intangible Assets', "expenditure on an intangible item should be recognized as an expense when it is incurred unless it forms part of the cost of an intangible asset".

In the given case, advertisement expenditure of ₹3 crores had been taken up for the marketing of a new product which may provide future economic benefits to an enterprise by having a turnover of ₹37.5 crores. Here, no intangible asset or another asset is acquired or created that can be recognized.

Therefore, the accounting treatment by the company of debiting the entire advertising expenditure of ₹3 crores to the Profit and Loss account of the year is correct.

Question 6

K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹40 lakhs towards Research and Development expenses upto 31st March, 2018. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years. Advise the Company as per the applicable Accounting Standard

(MTP-March 2019) (5 Marks)

Answer:

As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ₹40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2018.

Question 7

A 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.

You are required to determine the amortization method in line with AS 26.

(MTP-April 2019) (5 Marks)

Answer:

As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-a-vis production is determined reliably. A Ltd. should amortize the license fee of ₹200 lakhs as under:

Year	Net operating Cash in flow (₹)	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	3,200	0.11 (bal.)	22
	27,400	1.00	200

Question 8

K Ltd. launched a project for producing product X in October, 2018. The Company incurred ₹40 lakhs towards Research and Development expenses upto 31st March, 2019. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(RTP November 2019)

Answer:

As per para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2019.

Question 9

As per provision of AS-26, how would you deal to the following situations:

- (1) ₹23,00,000 paid by a manufacturing company to the legal advisor defending the patent of a product is treated as a capital expenditure.
- (2) During the year 2018-19, a company spent ₹7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- (3) A company spent ₹25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹25,00,000 by disclosing it as a prior period item.
- (4) A company with a turnover of ₹200 crores and an annual advertising budget of ₹50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹50,00,000 incurred on extensive special initial advertisement campaign for the new product.

(November 2019, New Course, 5 Marks)

Answer

As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

- (i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.
- (ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31 st March, 2019 because no benefit will arise in the future.
- (iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense
- (iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

Question 10

A 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

Year	Production in bottles (₹ in lakhs)	Net operating cash flow (₹ in lakhs)
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.

[MTP October, 2019, 5 Marks]

Answer

As per AS 26 'Intangibles Assets', the amortization method used should reflect the pattern in which economic benefits are consumed by the enterprise. If pattern cannot be determined reliably, then straight-line method should be used.

In the instant case, the pattern of economic benefit in the form of net operating cash flow vis-a-vis production is determined reliably. A Ltd. should amortize the license fee of ₹200 lakhs as under:

Year	Net operating Cash inflow (₹)	Ratio	Amortize amount (₹ in lakhs)
1	900	0.03	6
2	1,800	0.06	12
3	2,300	0.08	16
4	3,200	0.12	24
5	3,200	0.12	24
6	3,200	0.12	24
7	3,200	0.12	24
8	3,200	0.12	24
9	3,200	0.12	24
10	3,200	0.11 (bal.)	22
	27,400	1.00	200

Question 11

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

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

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

(May 2020)

Answer**Amortization of cost of patent as per AS 26**

Year	Estimated future cash flow (₹ in lakhs)	Amortization Ratio	Amortized Amount (₹ in lakhs)
1	600	.25	300
2	600	.25	300
3	600	.25	300
4	300	.40 (Revised)	120
5	300	.40 (Revised)	120
6	150	.20 (Revised)	<u>60</u>
			<u>1,200</u>

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

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

AS 29: Provisions, Contingent Liabilities and Contingent Assets

Question 1

The company has not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier.

You are required to examine in line with the provisions of AS 29.

(RTP May 2018)

Answer:

As per provisions of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.

Question 2

Sun Ltd. has entered into a sale contract of ₹5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is ₹1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

- (i) Should Sun Ltd. provide for contingency as per AS 29? Explain.
- (ii) Should provision be measured as the excess of compensation to be paid over the profit?

(MTP March 2018) (5 Marks)

Answer:

- (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹1.5 crores as per AS 29.

- (ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting ₹1.50 crores.

Question 3

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹200 lakhs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? You are required to explain in brief giving reasons for your answer.

(RTP November 2018)

Answer:

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

- (a) an enterprise has a present obligation as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

Question 4

An airline is required by law to overhaul its aircraft once in every five years. The pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

(MTP August 2018) (5 Marks)

Answer:

A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

Question 5

S Ltd. (a Public Sector Company) provides consultancy and engineering services to its clients. In the year 2016-17, the Government has set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of ₹680 lakhs for pay revision in the financial year 2016-17 on the estimated basis as the report of the commission is yet to come. As per the contracts with the client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job.

The company discloses through notes to accounts:

“Salaries and benefits include the provision of ₹680 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made”.

The accountant feels that the company should also book/recognise the income by ₹680 lakhs in Profit and Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit. Comment on the opinion of the Accountant with reference to relevant accounting standards.

(MTP October 2018) (5 Marks)

Answer:

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

Accordingly, potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists. In this case, the provision of salary to employees of ₹680 lakhs will be ultimately collected from the client, as per the terms of the contract. Therefore, the liability of ₹680 lakhs is matched by the counter claim from the client. Hence, the provision for salary of employees should be matched with the reimbursable asset to be claimed from the client. It appears that the whole amount of ₹680 lakhs is recoverable from client and there is no significant uncertainty about the collection. Hence, the net charge to profit and loss account should be nil.

The opinion of the accountant regarding recognition of income of ₹680 lakhs is not as per AS-29 and also the concept of prudence will not be followed if ₹680 lakhs is simultaneously recognized as income. ₹680 lakhs is not the revenue at present but only reimbursement of claim for which an asset is created. However, the accountant is correct to the extent as that non-recognition of ₹680 lakhs as income will result in the understatement of profit. To avoid this, in the statement of profit and loss, expense relating to provision may be presented net of the amount recognized for reimbursement.

Question 6

M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹200 lacs.

The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of AS 29? Explain in brief giving reasons for your answer.

(RTP May, 2019)

Answer:

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', a provision should be recognized when

- (a) an enterprise has a present obligation as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

In the given situation, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company, therefore there will be no outflow of the resources. Hence, no provision is required. The company will disclose the same as contingent liability by way of the following note:

"Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed copyrights and is seeking damages of ₹200 lakhs. However, the directors are of the opinion that the claim can be successfully resisted by the company."

Question 7

Sun Ltd. has entered into a sale contract of ₹5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is ₹1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of ₹1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

- (i) Should Sun Ltd. provide for contingency as per AS 29? Explain.
- (ii) Should provision be measured as the excess of compensation to be paid over the profit?

(MTP-March 2019) (5 Marks)

Answer:

(i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting ₹1.5 crores as per AS 29.

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting ₹1.50 crores.

Question 8

XYZ Ltd. has not made provision for warranty in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warranties on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29.

(RTP November 2019)

Answer

As per para 46 of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

Question 9

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the 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 (₹)
11th February 2017	60,000
25th December, 2017	40,000
04th October, 2018	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to P & L account for the year ended 31st March, 2019.

(November 2019, New Course, 5 Marks)

Answer

Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

$$\begin{aligned}
 \text{As at 31st March, 2018} &= ₹ 60,000 \times .02 + ₹ 40,000 \times .03 \\
 &= ₹ 1,200 + ₹ 1,200 = ₹ 2,400
 \end{aligned}$$

As at 31st March, 2019 $= ₹ 40,000 \times .02 + ₹ 1,35,000 \times .03$
 $= ₹ 800 + ₹ 4,050 = ₹ 4,850$

Amount debited to Profit and Loss Account for year ended 31st March, 2019

	₹
Balance of provision required as on 31.03.2019	4,850
Less: Opening Balance as on 1.4.2018	(2,400)
Amount debited to profit and loss account	<u>2,450</u>

Note: No provision will be made on 31st March, 2019 in respect of sales amounting ₹ 60,000 made on 11th February, 2017 as the warranty period of 2 years has already expired.

Question 10

An airline is required by law to overhaul its aircraft once in every five years. The Pacific Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. You are required to comment on the validity of the treatment done by the company in line with the provisions of AS 29.

[MTP October, 2019, 5 Marks]

Answer

A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

Question 11

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

- (i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.
- (ii) During 2018-19 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2019-20, the financial condition of Brew Ltd. deteriorates and on 31st Dec. 2019, it goes into liquidation. (Balance Sheet date 31-3-19).

(May 2020)

Answer

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

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

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

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

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

Schedule III

Question 1

Sagar Ltd. has issued convertible bonds for ₹65 crores which are due to mature on 30th September, 2018.

While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bonds as per the requirements of Schedule-III to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

(November 2018) (5 marks)

Answer

Schedule III to the companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Sagar Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Sagar Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

Question 2

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP August 2018) (5 Marks)

Answer:

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

Question 3

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP October 2018) (5 Marks)

Answer:

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

Question 4

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(MTP-March 2019) (5 Marks)

Answer:

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

Question 5

How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(RTP November 2019)

Answer:

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

Question 6

X Ltd. is a group 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 the light of Schedule III to the Companies Act, 2013.

(November 2019, New Course, 5 Marks)

Answer

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 the 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".

Advanced Issues in Partnership Accounts

Question 1

State the circumstances when Garner V/s Murray rule is not applicable.

(May 2019) (5 Marks)

Answer

Garner vs Murray rule is non-applicable in the following cases:

1. When the solvent partner has a debit balance in the capital account.
Only solvent partners will bear the loss of capital deficiency of insolvent partner in their capital ratio. If incidentally a solvent partner has a debit balance in his capital account, he will escape the liability to bear the loss due to insolvency of another partner.
2. When the firm has only two partners.
3. When there is an agreement between the partners to share the deficiency in capital account of insolvent partner.
4. When all the partners of the firm are insolvent.

Question 2

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities	(₹)	Assets	(₹)
Red's Capital 80,000		Building	1,00,000
Black's Capital <u>1,00,000</u>	1,80,000	Closing Stock	60,000
Red's Loan	20,000	Sundry Debtors	40,000
General Reserve	20,000	Investment	40,000
Sundry Creditors	40,000	6% Debentures in Cool Ltd. Cash	20,000
	2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and ₹20,000 towards capital.

- (a) The following further information is furnished:
- (i) The partners Red and Black shared the profits in the ration of 3:2.
 - (ii) Mr. Red was receiving a salary of ₹1000 p.m. from the very inception of the firm in addition to the share of profit.
 - (iii) The future profit ration between Red, Black and White will be 3 : 1 : . Mr. Red will not get any salary after the admission of Mr. White.
 - (iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

Year Ended	(₹)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2014	20,000	Loss
31.3.2014	40,000	Profit
31.3.2014	50,000	Profit
31.3.2014	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included and extraneous profit of ₹60,000 and the loss of the year ended 31st March, 2015 was on account of loss by strike to the extent of ₹40,000.

- (v) It was agreed that the value of the goodwill should not appear in the book of the firm.
- (b) Trading profit for the year ended 31st March, 2019 was ₹80,000 (Before charging depreciation).
- (c) Each partner had drawn ₹2,000 per months as drawing during the year 2018-19.
- (d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	₹1,20,000
Closing Stock	₹80,000
Sundry Debtors	NIL
Sundry Creditors	NIL
Investment	₹40,000
- (e) Interest @ 6% per annum on Red's loan was not paid during the year.
- (f) Interest on Debenture received during the year.
- (g) Depreciation is to be provided @ 5% on Closing Balance of Building.
- (h) Partners applied for conversion of the firm into a private Limited Company. i.e. RBW Private Limited. Certificate received on 1.4.2019.

The decided to convert Capital accounts of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare:

- (1) Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.
- (2) Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

(May 2019) (20 Marks)

Answer

M/s Red, Black and White**Statement of Profit & Loss for the year ended on 31st March, 2019**

	₹		₹
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on	2,400
To Net Profit to :		Debentures	
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	<u>15,040</u>		
	<u>82,400</u>		<u>82,400</u>

Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019

		Notes No.	₹
I	Equity and Liabilities		
	Shareholders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	<u>21,200</u>
	Total		<u>2,60,240</u>
II	Assets		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		<u>26,240</u>
	Total		<u>2,60,240</u>

Notes to Accounts

		₹
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building ₹(1,20,000 – 6,000)	1,14,000

Working Notes:**1. Calculation of goodwill**

Year ended March, 31

	2014 ₹	2015 ₹	2016 ₹	2017 ₹	2018 ₹
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	(60,000)	40,000	—	—	—
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	12,000	12,000	12,000	12,000	12,000
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	(2,400)	(2,400)	(2,400)	(2,400)	(2,400)
	(10,400)	29,600	49,600	59,600	69,600
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					(10,400)
Accumulated Profit					1,98,000
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

2. Partners' Capital Accounts

	Red	Black	White		Red	Black	White
	₹	₹	₹		₹	₹	₹
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040	By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

3. Balance Sheet as on 31st March, 2019

Liabilities	₹	₹	Assets	₹	₹
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	(6,000)	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	1,200	21,200	Cash (Balancing figure)		26,240*
		2,60,240			2,60,240

4. Conversion into Company

		₹
Capital:	Red	1,13,120
	Black	1,14,880
	White	<u>11,040</u>
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black(1/5)	47,808
	White (1/5)	<u>47,808</u>

Red should subscribe shares of ₹30,304 (₹1,43,424 – ₹1,13,120) and White should subscribe shares of ₹36,768 (₹47,808 less 11,040). Black withdraws ₹67,072 (₹47,808 – ₹1,14,880).

5 Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

6. Closing cash balance* can also be derived as shown below:

	₹	₹
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		<u>40,000</u>
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	<u>40,000</u>	<u>(60,000)</u>
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		<u>35,840</u>
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	<u>20,000</u>	<u>(92,000)</u>
		26,240

Question 3

E, F and G were partners in a firm, sharing profits and losses in the ratio of 3:2:1, respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2017. The balance sheet on that date was as follows:

Liabilities		₹	Assets		₹
Capital accounts:			Machinery		1,54,000
E	1,13,100		Furniture & fittings		25,800
F	35,400		Investments		5,400
G	31,500	1,80,000	Stock		<u>97,700</u>

Liabilities		₹	Assets	₹
Current accounts:			Debtors	56,400
E	26,400		Bank	29,700
G	6,000	32,400	Current account: F	18,000
Reserves		1,08,000		
Loan account: G		15,000		
Creditors		51,600		
		3,87,000		3,87,000

The realization of assets is spread over the next few months as follows: February, Debtors, ₹51,900; March, Machinery, ₹1,39,500; April, Furniture, etc. ₹18,000; May, G agreed to take over investment at ₹6,300; June, Stock, 196,000.

Dissolution expenses, originally provided, were ₹13,500, but actually amounted to ₹9,600 and were paid on 30th April. The partners decided that after creditors were settled for ₹50,400, all cash received should be distributed at the end of each month in the most equitable manner. You are required to prepare a statement of actual cash distribution as received using "Maximum loss basis" method.

(November 2018) (20 Marks)

Answer:

Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors	G's Loan	E	F	G	Total
	₹	₹	₹	₹	₹	
Feb: Balance due	51,600	15,000	1,93,500	53,400	55,500	3,02,400*
Cash available	29,700					
Collection from debtors	<u>51,900</u>					
	81,600					
Less: prov for expenses	<u>13,500</u>					
	68,100					
Creditors & Loan paid (50,400 + 15,000)	<u>65,400</u>	<u>(50,400)</u>				
	1,200	-				
Discount written off	<u>(1,200)</u>					
Available for E, F & G	-					
Maximum possible loss (3,02,400 - 2,700) = 2,99,700						
In ratio of 3:2:1			<u>(1,49,850)</u>	<u>(99,900)</u>	<u>(49,950)</u>	<u>(2,99,700)</u>
			43,650	(46,500)	5,550	
Adjustment for F's deficiency in ratio of 1,13,100: 31,500			<u>(36,370)</u>	<u>46,500</u>	<u>(10,130)</u>	
			7,280	-	(4,580)	
Adjustment for G's deficiency			<u>(4,580)</u>	-	4,580	
			2,700			
Cash paid to E			2,700			
Balance due			1,90,800	53,400	55,500	(2,99,700)
March						

	Creditors ₹	G 's Loan ₹	E ₹	F ₹	G ₹	Total
Cash available ₹1,39,500						
Maximum possible loss ₹2,99,700 – ₹1,39,500						
= ₹1,60,200 in ratio of 3:2:1			(80,100)	(53,400)	(26,700)	(1,60,200)
Cash paid			1,10,700	-	28,800	1,39,500
Balance			80,100	53,400	26,700	1,60,200
April						
18,000 + 3,900 (saving in expenses) = 21,900						
Maximum possible loss in ratio of 3:2:1			(69,150)	(46,100)	(23,050)	(1,38,300)
Cash paid			10,950	7,300	3,650	21,900
Balance						
May			69,150	46,100	23,050	1,38,300
Investment taken by G					6300	6300
Balance			69150	46100	16750	132000
Maximum loss (1,38,300 less 6,300)			(66,000)	(44,000)	(22,000)	(1,32,000)
Balance			3,150	2,100	1,050	6,300
Cash brought by G (6,300 less 1,050)					5,250	5,250
Cash paid to E and F			(3,150)	(2,100)		(5,250)
Balance			66,000	44,000	22,000	1,32,000
June						
Stock 96,000						
Maximum loss (1,32,000-96,000)			(18,000)	(12,000)	(6,000)	36,000
Cash paid			48,000	32,000	16,000	96,000
Unpaid balance			(18,000)	(12,000)	(6,000)	36,000

*Partners' capital balances after adjusting reserves and current A/c balance.

Working Note:

Statement showing the cash available for distribution:

Feb. ₹29,700 + 51,900 - 13,500 = ₹68,100

March ₹1,39,500

April ₹18,000 + 3,900 = 21,900

May - Nil

June ₹96,000

Question 4

Amit paid ₹50,000 as premium to other partners of the firm at the time of his admission to the firm, with a condition that it will not be dissolved before expiry of five years. The firm is dissolved after three years. Amit claims refund of premium. Explain—

- (1) Whether he is entitled to get a refund of the premium? If yes, list the criteria for the calculation of the amount of the refund.
- (2) Also explain any two conditions when no claim in this respect will arise.

(November 2018) (4 Marks)

Answer:

If the firm is dissolved before the term expires, as is the case, Amit, being a partner who has paid premium on admission, will have to be repaid/refunded.

The criteria for calculation of refund amount are:

- (i) Terms upon which admission was made,
- (ii) The time period for which it was agreed that the firm will not be dissolved,
- (iii) The time period for which the firm has already been in existence

No claim for refund will arise if:

- (i) The firm is dissolved due to death of a partner or If the dissolution of the firm is basically because of misconduct of,
- (ii) If the dissolution is through an agreement and such agreement does not have a stipulation for refund of premium.

Question 5

A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2018 when the firm's position was as follows:

Liabilities	(₹)	Assets	(₹)
A's Capital	7,50,000	Land & Building	5,00,000
B's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with AB Limited Company was as follows:

- (i) Land and Building was purchased at 20% more than the book value.
- (ii) Furniture and stock were purchased at book value less 15%.
- (iii) The Goodwill of the firm was valued at ₹2,00,000.
- (iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

- (v) The purchase price was to be discharged by the company in fully paid equity shares of ₹10 each at a premium of ₹2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by ₹5,000 allowed as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account in the books of the Partnership firm.

(May 2018) (15 Marks)

Answer

In the Books of Partnership Firm Realization Account

		₹				₹
To	Land & Building	5,00,000	By	Sundry Creditors		3,00,000
To	Furniture	2,00,000	By	AB Ltd. Co. - Purchase consideration (W.N.1)		13,95,000
To	Stock	5,00,000	By	AB Ltd. Company-Sundry Debtors	3,30,000	
To	Debtors	3,30,000		Less: Commission 5% on 3,30,000	16,500	3,13,500
To	AB Ltd. Co. - Sundry Creditors (3,00,000 less 5,000)	2,95,000				
To	AB Ltd. Co. - (Commission 3% on 2,95,000)	8,850				
To	Profits transferred to:					
	As Capital A/c 87,325					
	B's Capital A/c 87,325	1,74,650				
		20,08,500				20,08,500

Capital Accounts of Partners

		A	B			A	B
		₹	₹			₹	₹
To	Shares in AB Ltd. Co.- (W.N.2)	8,19,900	5,75,100	By	Balance b/d	7,50,000	5,00,000
To	Cash - Final Payment	17,425	12,225	By	Realization a/c - Profit	87,325	87,325
		8,37,325	5,87,325			8,37,325	5,87,325

Cash Account

		₹			₹
To	Balance b/d	20,000	By	A's Capital A/c- Final payment	17,425
To	AB Ltd. Co. (Amount realized from Debtors less amount paid to creditors) - (W.N.3)	9,650	By	B's Capital A/c- Final Payment	12,225
		29,650			29,650

Working Notes:**1. Calculation of Purchase consideration:**

	₹
Land & Building	6,00,000
Furniture	1,70,000
Stock	4,25,000
Goodwill	2,00,000
	13,95,000

2. Distribution of shares among partners

The shares received from the company have been distributed between the two partners A & B in the ratio of their final claims i.e., 8,37,325: 5,87,325*.

No. of shares received from the company = $13,95,000/12 = 1,16,250$

A gets $[(1,16,250 \times 8,37,325)/14,24,650] = 68,325$ shares valued at $68,325 \times 12 = ₹8,19,900$. B gets the remaining 47,925 shares, valued at ₹5,75,100 ($47,925 \times 12$)

3. Calculation of net amount received from AB Ltd on account of amount realized from debtors less amount paid to creditors.

		₹
	Amount realized from Debtors	3,30,000
Less:	Commission for realization from debtors (5% on 3,30,000)	16,500
		3,13,500
Less:	Amount paid to creditors	2,95,000
		18,500
Less:	Commission for cash paid to creditors (3% on 2,95,000)	8,850
	Net amount received	9,650

***Note:** In the above situation, shares received from AB Ltd. Company have been distributed between two partners A and B in the ratio of their final claims. Alternatively, shares received from AB Ltd. can be distributed among the partners in their profit sharing ratio i.e. $₹13,95,000 \times \frac{1}{2} = ₹6,97,500$ each. In that case, firm will pay cash amounting ₹1,39,825 to A and will receive cash ₹1,10,175 from B. Partners' capital accounts and cash account will, accordingly get changed.

Question 6

Write short notes on extent of liability of LLP and its Partners.

(May 2018) (5 Marks)

Answer:

Extent of Liability of LLP and its partners

Every partner of an LLP for the purpose of its business is an agent of the LLP but is not an agent of other partners. Obligations of LLP are solely its obligations and liabilities of LLP are to be met out of properties of LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. The LLP is liable if a partner of LLP is liable to any person as a result of wrongful or omission on his part in the course of business of the LLP or with his authority. However, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP. Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

If an LLP or any of its partners act with the intent to defraud creditors of the LLP or any other person or for any fraudulent purpose, then the liability of the LLP and the concerned partners is unlimited. However, where the fraudulent act is carried out by a partner, the LLP is not liable if it is established by the LLP that the act was without the knowledge or authority of the LLP. Where the business is carried out with fraudulent intent or for fraudulent purpose, every person who was knowingly a party is punishable with imprisonment and fine.

Question 7

A, B and C are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2018 is as below:

Liabilities	₹	Assets	₹
A's Capital	1,20,000	Factory Building	1,93,280
B's Capital	80,000	Plant and Machinery	1,30,200
C's Capital	1,00,000	Trade Receivables	43,200
B's Loan	36,000	Inventories	99,120
Trade Payables	1,32,000	Cash at Bank	2,200
	4,68,000		4,68,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. The partners decided to distribute amounts as and when feasible and for this purpose they appoint C who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	1,49,200
Second instalment	1,38,602
Third instalment	80,000
Last instalment	56,000
Dissolution expenses were provided for estimated amount of	₹24,000
The trade payables were settled finally for	₹1,27,200

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

(RTP November 2018)

Answer:

Statement showing distribution of cash amongst the partners

		Trade Payable	B's Loan	A (₹)	B (₹)	C(₹)
Balance Due		1,32,000	36,000	1,20,000	80,000	1,00,000
Including 1st Instalment amount with the firm						
₹(2,200 + 1,49,200)	1,51,400					
Less: Dissolution expenses provided for	(24,000)					
	1,27,400					
Less: C's remuneration of 1% on assets realized (1,49,200 × 1%)	(1,492)					
	1,25,908					
Less: Payment made to Trade Payables	1,25,908	1,25,908				
Balance due	Nil	6,092				
2nd instalment realised	1,38,602					
Less: C's remuneration of 1% on assets realized (1,38,602 × 1%)	(1,386)					
	1,37,216					
Less: Payment made to Trade Payables	(1,292)	(1,292)				
Transferred to P & L A/c	1,35,924	4,800				
Less: Payment for B's loan A/c	(36,000)	(36,000)				
Amount available for distribution to partners	99,924	Nil				

		Trade Payable	B's Loan	A (₹)	B (₹)	C(₹)
Less: C's remuneration of 10% of the amount distributed to partners $(99,924 \times 10/110)$	(9,084)					
Balance to be distributed to partners on the basis of HRCM	90,840					
Less: Paid to C (W.N.)	(4,000)					(4,000)
	86,840					96,000
Less: Paid to A and C in 5:4 (W.N.)	(36,000)			(20,000)		(16,000)
Balance due	50,840			1,00,000	80,000	80,000
Less: Paid to A, B & C in 5:4:4	50,840			(19,554)	15,643	(15,643)
	Nil					
Amount of 3rd instalment	80,000			80,446	64,357	64,357
Less: C's remuneration of 1% on assets realized $(80,000 \times 1\%)$	(800)					
	79,200					
Less: C's remuneration of 10% of the amount distributed to partners $(79,200 \times 10/110)$	(7,200)					
	72,200					
Less: Paid to A, B, C in 5:4:4 for (W.N.)	(72,000)			(27,692)	(22,154)	(22,154)
	Nil			52,754	42,203	42,203
Amount of 4th and last instalment	56,000					
Less: C's remuneration of 1% on assets realized $(56,000 \times 1\%)$	(560)					
	55,440					

		Trade Payable	B's Loan	A (₹)	B (₹)	C(₹)
Less: C's remuneration of 10% of the amount distributed to partners $(55,440 \times 10/110)$	(5,040)					
Less: Paid to A, B and C in 5:4:4	50,400			(19,384)	15,508	(15,508)
Loss suffered by partners				33,370	26,695	26,695

Working Note:

- (i) ₹2,200 added to the first instalment received on sale of assets represents the Cash in Bank
- (ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹6,092. However, since the creditors were settled for ₹1,27,200 only the balance ₹1,292 were paid and the balance ₹4,800 was transferred to the Profit & Loss Account.

(iii) Highest Relative Capital Basis

	A ₹	B ₹	C ₹
Balance of Capital Accounts (1)	1,20,000	80,000	1,00,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	24,000	20,000	25,000
Capital in profit sharing ratio taking B's Capital as base (2)	1,00,000	80,000	80,000
Excess of A's Capital and C's Capital 1-2) = (3)	20,000	Nil	20,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	4,000		5,000
Capital in profit sharing ratio taking A's Capital as base (4)	20,000		16,000
Excess of C's Capital (3-4)=(5)	nil		4,000

Therefore, firstly 74,000 is to be paid to C, then A and C to be paid in proportion of 5:4 up to ₹36,000 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz A, B and C.

Question 8

Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000
Baal	80,000	Buildings	1,10,000
Chand	10,000	Machinery	50,000
General Reserve	18,000	Motor Car	28,000
Investment Fluctuation Fund	4,000	Furniture	12,000
Chand's Loan	33,000	Investments	18,000
Mrs. Aman's loan	15,000	Loose tools	7,000
Creditors	96,000	Stock	18,000
Bills Payable	14,000	Bills receivable	20,000
Bank overdraft	60,000	Debtors: 40,000	
		Less: Provision <u>2,000</u>	38,000
		Cash	1,000
		Chand's current A/c	56,000
		Profit and Loss A/c	12,000
	4,00,000		4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹10,00,000 divided into ₹100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

- Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.
- Liabilities for bills payable and bank overdraft are to be taken over by the company.
- The purchase price is settled at ₹1,95,500 payable as to ₹75,500 in cash and the balance in company's fully paid shares of ₹100 each.
- The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:
Investments are taken over by Aman for ₹13,000; debtors realize in all ₹20,000; Motor Car, furniture and loose tools fetch ₹24,000, ₹4,000, and ₹1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid ₹94,000 in final settlement of their claims. The realization expenses amount to ₹500.
- The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare the necessary ledger accounts in the books of the partnership firm.

(RTP May 2018)

Answer:

Necessary Ledger Accounts in the books of Partnership Firm

Realization Account

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investments taken over)		13,000
To Loose tools		7,000	By Cash Ac:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realization expenses	500	94,500			
To Profit on Realization t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	333	2,000			
		4,44,500			4,44,500

ABC Ltd. Account

Particulars	₹	Particulars	₹
To Realization A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	Aman ₹	Baal ₹	Chand ₹	Particulars	Aman ₹	Baal ₹	Chand ₹
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realization A/c	13,000	—	—	By Chands Loan A/c	—	—	33,000
To Chand's Current A/c	—	—	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund*	2,000	1,333	667
To Cash A/c	18,000	44,000	—	By Realization A/c	1,000	667	333
				By Realization A/c (Mrs.Aman's loan A/c)	15,000	—	—
				By Cash A/c	—	—	31,000
	97,000	88,000	78,000		97,000	88,000	78,000

*Alternatively, Investment Fluctuation Fund Account may be transferred to Realization Account

Chand's Current Account

Particulars	₹	Particulars	₹
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		56,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realization A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realization A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		—
	1,56,500		1,56,500

Question 9

Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

(RTP May 2018)

Answer:

Under section 27(3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- ♦ The Liabilities of an LLP shall be met out of the properties of the LLP;
- ♦ A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- ♦ An LLP is not bound by anything done by a partner in dealing with a person, if:
 - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
 - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- ♦ The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

Question 10

The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2016. Their balance sheet as on that date is given below:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	<u>7,000</u>
Total	<u>1,63,500</u>	Total	<u>1,63,500</u>

- (a) The partners share profit and losses in the ratio of 4:3:2.
- (b) Cash is distributed to the partners at the end of each month.
- (c) A summary of liquidation transactions are as follows:
- January 2017
- ₹9,000 - collected from debtors; balance is uncollectable.
 - ₹8,000 - received from the sale of entire furniture
 - ₹1,000 - Liquidation expenses paid.
 - ₹6,000 - Cash retained in the business at the end of month

February 2017

- ₹1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹9,000 (book value ₹3,500)
- ₹2,000 - Cash retained in the business at the end of month

March 2017

- ₹38,000 - received on the sale of remaining plant and machinery.
- ₹10,000 - received from the sale of entire stock.
- ₹1,700 - Liquidation expenses paid.
- ₹41,000 - Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

(MTP March 2019) (15 Marks)

Answer:

Particulars	Cash	Creditors	Capitals		
	₹	₹	P (₹)	Q (₹)	R (₹)
Balance due after loan		16,000	52,000	43,500	32,000
January					
Balance available	9,000				
Realization less expenses and cash retained	10,000				
Amount available and paid	19,000	(16,000)	-	-	(3,000)
Balance due					
February					
Opening Balance	-	-	52,000	43,500	29,000
Expenses paid and cash carried forward	6,000 <u>3,000</u>				
Available for distribution					
Cash paid to Q and Machinery given to R	3,000				
Balance due			-	3,000	9,000
March					
Opening Balance	-		52,000	40,500	20,000
Amount realized less expenses	2,000				
Amount paid to partners	87,300				
Loss	89,300		41,689	32,767	14,844
			10,311	7,733	5,156

Working Note:**(i) Highest Relative Capital Basis**

	P (₹)	Q (₹)	R (₹)
Scheme of payment for January 2017			
Balance of Capital Ac counts	65,000	50,500	32,000
Less: Loans	(13,000)	(7,000)	-
(A)	52,000	43,500	32,000
Profit Sharing Ratio	4	3	2
Capital/Profit sharing Ratio	13,000	14,500	16,000
Capital in profit sharing ratio, taking P's capital as base	52,000	39,000	26,000
(B)			
Excess of R's capital and Q's Capital (A – B) (i)		4,500	6,000
Profit Sharing Ratio		3	2
Capital/Profit sharing Ratio		1,500	3,000
Capital in profit sharing ratio, taking Q's capital as base (ii)		4,500	3,000
Excess of R's Capital over Q's capital (i – ii)			3,000

(ii) Scheme of distribution of available cash for March:

	P (₹)	Q (₹)	R (₹)
Balance of Capital Accounts at end of February (A)	52,000	40,500	20,000
Profit Sharing Ratio	4	3	2
Capital/Profit sharing Ratio	13,000	13,500	10,000
Capital in profit sharing ratio, taking R's capital as base (B) (i)	40,000	30,000	20,000
Excess of P's Capital and Q's Capital (A – B) (i)	12,000	10,500	
Profit Sharing Ratio	4	3	
Capital/Profit sharing Ratio	3,000	3,500	
Capital in profit sharing ratio taking P's capital as base (ii)	12,000	9,000	
Excess of Q's Capital over P's Capital (i – ii)	-	1,500	
Payment ₹1500 (C)		(1,500)	
Balance of Excess Capital (i – C)	12,000	9,000	
Payment ₹21000 (D)	(12,000)	(9,000)	
Balance due (A – C – D)	40,000	30,000	20,000
Balance cash Payment (₹89,300 – ₹22,500) = ₹66,800 (E)	(29,689)	(22,267)	(14,844)
Total Payment (₹89,000) (C + D + E) (iii)	41,689	32,767	14,844
Loss (A – iii)	10,311	7,733	5,156

Question 11

Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(MTP March 2019) (5 Marks)

Answer:

Nature of Limited Liability Partnership: A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners

Question 12

X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	<u>2,34,000</u>		<u>2,34,000</u>

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000
Dissolution expenses were provided for estimated amount of	₹12,000
The creditors were settled finally for	₹63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

(MTP April 2019) (16 Marks)

Answer:**Statement showing distribution of cash amongst the partners**

		Trade Payable	Y's Loan	X (₹)	Capitals Y (₹)	Z (₹)
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1 st Instalment amount with the firm ₹(1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	<u>(12,000)</u>					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	<u>(746)</u>					
	62,954					
Less: Payment made to Trade Payables	<u>(62,954)</u>	<u>(62,954)</u>				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	<u>(693)</u>					
	68,608					
Less: Payment made to Trade Payables	<u>(646)</u>	<u>(646)</u>				
Transferred to P & L A/c		2,400				
	67,962					
Less: Payment for Y's loan A/c	<u>(18,000)</u>		<u>(18,000)</u>			
Amount available for distribution to partners	49,962		nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	<u>(4,542)</u>					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	<u>(2,000)</u>					<u>(2,000)</u>
	43,420					48,000
Less: Paid to X and Z in 5:4 (W.N.)	<u>(18,000)</u>			<u>(10,000)</u>	-	<u>(8,000)</u>
Balance due	25,420			50,000	40,000	40,000

		Trade Payable	Y's Loan	X (₹)	Capitals Y (₹)	Z (₹)
Less: Paid to X, Y & Z in 5:4:4	<u>25,420</u>			<u>(9,778)</u>	<u>(7,821)</u>	<u>(7,821)</u>
	Nil					
Amount of 3 rd instalment	40,000			40,222	32,179	32,179
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)	<u>(400)</u>					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)	<u>(3,600)</u>					
	36,000					
Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	<u>(36,000)</u>			<u>(13,846)</u>	<u>(11,077)</u>	<u>(11,077)</u>
	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	<u>(280)</u>					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	<u>(2,520)</u>					
	25,200					
Less: Paid to X, Y and Z in 5:4:4	<u>(25,200)</u>			<u>(9,692)</u>	<u>(7,754)</u>	<u>(7,754)</u>
	Nil					
Loss suffered by partners				16,684	13,348	13,348

Working Note:

- (i) ₹1100 added to the first instalment received on sale of assets represents the Cash in Bank
- (ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹3046.
However, since the creditors were settled for ₹63,600 only the balance ₹646 were paid and the balance ₹2400 was transferred to the Profit & Loss Account.

(iii)

Highest Relative Capital Basis

	X ₹	Y ₹	Z ₹
Balance of Capital Accounts (A)	60,000	40,000	50,000
Profit sharing ratio	5	4	4
Capital Profit sharing ratio	12,000	10,000	12,500
Capital in profit sharing ratio taking Y's Capital as base (B)	50,000	40,000	40,000
Excess of X's Capital and Z's Capital (A-B) = (C)	10,000	nil	10,000
Again repeating the process			
Profit sharing ratio	5		4
Capital Profit sharing ratio	2,000		2,500
Capital in profit sharing ratio taking X's Capital as base (D)	10,000		8,000
Exc ess of Z's Capital (C-D)=(E)	nil		2,000

Therefore, firstly ₹2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto ₹18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

Question 13

State the circumstances when LLP can be wound up by the Tribunal.

(MTP April 2019) (4 Marks)

Answer:

Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Question 14

A and B are partners of AB & Co. sharing profits and losses in the ratio of 2:1 and C and D are partners of CD & Co. sharing profits and losses in the ratio of 3:2. On 1st April 2017, they decided to amalgamate and form a new firm M/s. AD & Co. wherein all the partners of both the firm would be partners sharing profits and losses in the ratio of 2:1:3:2 respectively to A,B,C and D.

Their balance sheets on that date were as under:

Liabilities	AB & Co. (₹)	CD & Co. (₹)	Assets	AB & Co. (₹)	CD & Co. (₹)
Capitals					
A	1,50,000	-	Building	75,000	90,000
B	1,00,000	-	Machinery	1,20,000	1,00,000
C	-	1,20,000	Furniture	15,000	12,000
D	-	80,000	Inventory	24,000	36,000
Reserve	66,000	54,000	Debtors	65,000	78,000
Creditors	52,000	35,000	Due from CD		
Due to AB	-	47,000	& Co.	47,000	-
& Co.			Cash at Bank	18,000	15,000
			Cash in hand	4,000	5,000
	3,68,000	3,36,000		3,68,000	3,36,000

The amalgamated firm took over the business on the following terms:

- Building was taken over at ₹1,00,000 and ₹1,25,000 of AB & Co. and CD & Co. respectively and Machinery was taken over at ₹1,25,000 and ₹1,10,000 of AB & Co. and CD & Co. respectively.
- Goodwill of AB & Co. was worth ₹75,000 and that of CD & Co. was worth ₹50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.
- Provision for doubtful debts has to be carried forward at ₹5,000 in respect of debtors of AB & Co. and ₹8,000 in respect of CD & Co.

You are required to:

- Compute the adjustments necessary for goodwill.
- Pass the Journal Entries in the books of AD & Co. assuming that excess/deficit capital (taking D's capital as base) with reference to share in profits are to be transferred to current accounts.

(MTP August, 2018) (15 Marks)

Answer:

(i) Adjustment for raising & writing off of goodwill

	Goodwill raised in old profit sharing ratio			Goodwill written off in new ratio	Difference
	AB & Co.	CD & Co.	Total	AD & Co.	
	₹	₹	₹	₹	₹
A	50,000		50,000 Cr.	31,250 Dr.	18,750 Cr.
B	25,000		25,000 Cr.	15,625 Dr.	9,375 Cr.
C		30,000	30,000 Cr.	46,875 Dr.	16,875 Dr.
D		20,000	20,000 Cr.	31,250 Dr.	11,250 Dr.
	<u>75,000</u>	<u>50,000</u>	<u>1,25,000</u>	<u>1,25,000</u>	

(ii)

**In the books of AD & Co.
Journal Entries**

Date	Particulars	Debit	Credit
		₹	₹
April 1, 2017	Building A/c Dr. 1,00,000	1,00,000	
	Machinery A/c Dr. 1,25,000	1,25,000	
	Furniture A/c Dr. 15,000	15,000	
	Stock A/c Dr. 24,000	24,000	
	Debtors A/c Dr. 65,000	65,000	
	CD & Co. A/c Dr. 47,000	47,000	
	Cash at bank A/c Dr. 18,000	18,000	
	Cash in hand A/c Dr. 4,000	4,000	
	To Provision for doubtful debts A/c		5,000
	To Creditors A/c		52,000
	To A's capital A/c (W.N. 2a)		2,10,667
	To B's capital A/c (W.N.2 a)		1,30,333
	(Being the sundry assets and liabilities of AB & Co. taken over at the values stated as per the agreement)		
April 1, 2017	Building A/c Dr. 1,25,000	1,25,000	
	Machinery A/c Dr. 1,10,000	1,10,000	
	Furniture A/c Dr. 12,000	12,000	
	Stock A/c Dr. 36,000	36,000	
	Debtors A/c Dr. 78,000	78,000	
	Cash at bank A/c Dr. 15,000	15,000	
	Cash in hand A/c Dr. 5,000	5,000	
	To Provision for doubtful debts A/c		8,000
	To Creditors A/c		35,000
	To AB & Co. A/c		47,000
	To C's capital A/c (W.N. 2b)		1,74,600
	To D's capital A/c (W.N. 2b)		1,16,400
	(Being the sundry assets and liabilities of CD & Co. taken over at the values stated as per the agreement)		
	C's capital A/c Dr. 16,875	16,875	
	D's capital A/c Dr. 11,250	11,250	
	To A's capital A/c		18,750
	To B's capital A/c		9,375
	(Being adjustment in capital accounts of the partners on account of goodwill)		
	AB & Co. A/c Dr. 47,000	47,000	
	To CD & Co. A/c		47,000
	(Being mutual indebtedness of AB & Co. and CD & Co. cancelled)		
	A's Capital A/c Dr. 1,24,267	1,24,267	
	To A's Current A/c		1,24,267
	(Being excess amount in A's capital A/c transferred to A's current A/c - refer W.N.3)		

Date	Particulars	Debit	Credit
		₹	₹
	B's Capital A/c Dr. To B's Current A/c (Being excess amount in B's capital A/c transferred to B's current A/c - refer W.N.3)	87,133	87,133

Working Notes:**(1) Profit on Revaluation**

	AB & Co.	CD & Co.
	₹	₹
Building (1,00,000 – 75,000) (1,25,000 – 90,000)	25,000	35,000
Machinery (1,25,000 – 1,20,000) (1,10,000 – 1,00,000)	5,000	10,000
	30,000	45,000
Less: Provision for doubtful debts	(5,000)	(8,000)
	25,000	37,000

(2) Balance of capital accounts of partners on transfer of business to AD & Co.**(a) AB & Co.**

	A's Capital	B's Capital
	₹	₹
Balance as per the Balance Sheet	1,50,000	1,00,000
Reserves in the profits and losses sharing ratio	44,000	22,000
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	16,667	8,333
	<u>2,10,667</u>	<u>1,30,333</u>

(b) CD & Co.

	C's Capital	D's Capital
	₹	₹
Balance as per the Balance Sheet	1,20,000	80,000
Reserves in the profits and losses sharing ratio	32,400	21,600
Profit on revaluation in the profits and losses sharing ratio (W.N.1)	22,200	14,800
	<u>1,74,600</u>	<u>1,16,400</u>

(3) Calculation of capital of each partner in the new firm

Particulars	A	B	C	D
	₹	₹	₹	₹
Balance as per W.N.2	2,10,667	1,30,333	1,74,600	1,16,400
Adjustment for goodwill	18,750	9,375	(16,875)	(11,250)
	2,29,417	1,39,708	1,57,725	1,05,150
Total capital ₹4,20,600* in the new ratio of 2:1:3:2	(1,05,150)	(52,575)	(1,57,725)	(1,05,150)
Transfer to Current Account	1,24,267 Cr.	87,133 Cr.	-	-

* Taking D's capital as the base which is 2/8 th of total capital; total capital will be 1,05,150 x 8/2 i.e. ₹4,20,600.

Question 15

Under what circumstances, a partner may be called upon to pay the liabilities of LLP. Explain in brief.

(MTP August, 2018) (5 Marks)

Answer:

Under section 27 (3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP. The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28 (2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

Question 16

M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm 31st March, 2017 was the following:

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

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

You are required as under:

1. Machinery is to be transferred at ₹1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹1,00,000. For this purpose, sufficient profits of the year are to be retained in profit -sharing ratio.

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

You are required to prepare:

- (i) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.
- (ii) Capital Accounts showing all adjustments required to dissolve the Partnership.
- (iii) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

(MTP October, 2018) (16 Marks)

Answer:

(i) Number of Shares to be issued to Partners

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

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

(ii) Partners' Capital Accounts

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

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

(iii) Balance sheet of MNO Ltd. as on 31 st March, 2017 (after Takeover of Firm)

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

Notes to Accounts

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

Working Notes:**1. Profit & Loss Appropriation Account for the year ended 31 st March, 2017**

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	2,48,600
M [₹1,36,000 x 10%]	13,600			
N [₹90,000 x 10%]	9,000			
O [₹46,000 x 10%]	<u>4,600</u>	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	<u>44,280</u>	<u>2,21,400</u>		
		2,48,600		<u>2,48,600</u>

2. Statement showing Additional Drawings in Cash**(a) Funds available for Drawings**

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

(b) Ascertainment of Additional Drawings

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

Question 17

Can a partner be called upon to pay the liability of the LLP? If yes, under what circumstances?

(MTP October, 2018) (4 Marks)

Answer:

Under section 27 (3) of the LLP Act, 2008, any obligation of the LLP arising out of a contract or otherwise will be the sole obligation of the LLP.

The partners of an LLP in the normal course of business are not liable for the debts of the LLP. However, under section 28 (2) of the LLP Act, 2008, a partner will be liable for his own wrongful acts or commissions, but will not be liable for the wrongful acts or commissions of other partners of the LLP.

Thus a partner may be called to pay the liability of an LLP under exceptional circumstances.

Question 18

L, M and N share profits and losses in the ratio of 5:3:2. Their firm was dissolved due to misconduct of M and their balance sheet on that date was as under:

Balance Sheet as at 31-3-2016

Liabilities	₹	₹	Assets	₹
Capital Accounts:			Land and Building	2,00,000
L	3,00,000		Plants	2,00,000
M	2,00,000		Trade receivables	1,00,000
N	1,00,000	6,00,000	Inventories	1,50,000
Current Accounts:			Cash	1,00,000
L	50,000		Current Account:	
M	30,000	80,000	N	50,000
Trade payables		1,20,000		
		8,00,000		8,00,000

The whole business of the firm was sold to Preet Limited, on that day on the following terms:

- (i) Preet Limited will issue the following securities in consideration for transfer of business:
10,000 equity shares @ ₹15 each, 15,000 preference shares @ ₹15 each; and 20,000 debentures @ ₹14.725.
- (ii) The agreed value of assets and liabilities of partnership firm are as follows:
Land & Building - ₹3,00,000, Plants - ₹1,50,000, Inventory - ₹1,40,000, Trade Receivable - ₹97,500, and Trade Payable - ₹1,18,000.

It was mutually decided that preference shares and debentures will be distributed in profit sharing ratio and cash brought in by the partner (if any) will be shared equally by the remaining partners before distribution of equity shares. Equity shares are distributed on residual basis at the end.

You are required to prepare Realization Account, Cash Account, Partners' Current and Capital Accounts at the time of closing close the books of the firm.

(MTP March 2018) (15 Marks)

Answer:

Realization Account

	₹	₹		₹
To Land & Building		2,00,000	By Trade Payables	1,20,000
To Plant		2,00,000	By Preet Limited (W.N.1)	6,69,500
To Inventories		1,50,000		
To Trade Receivable		1,00,000		
To Cash		1,00,000		
To Profit transferred to Capital A/c:				
L	19,750			
M	11,850			
N	7,900	39,500		
		7,89,500		7,89,500

Cash Account

	₹		₹
To N's Capital A/c	46,000	By L's Capital A/c	23,000
		By M's Capital A/c	23,000
	46,000		46,000

Partners' Current Accounts

	L ₹	M ₹	N ₹		L ₹	M ₹	N ₹
To Balance b/d	—		50,000	By Balance b/d	50,000	30,000	—
To L's Capital A/c	69,750			By Realisation A/c	19,750	11,850	7,900
To M's Capital A/c		41,850		By N's Capital A/c			42,100
	69,750	41,850	50,000		69,750	41,850	50,000

Partners' Capital Accounts

	L ₹	M ₹	N ₹		L ₹	M ₹	N ₹
To N's Current A/c	—	—	42,100	By Balance b/d	3,00,000	2,00,000	1,00,000
To Preference Shares in Preet Ltd. A/c	1,12,500	67,500	45,000	By L's Current A/c	69,750		
To Debentures A/c	1,47,250	88,350	58,900	By M's Current A/c		41,850	
To Cash A/c	23,000	23,000	—	By Cash A/c (bal. fig.)			46,000
To Equity Shares A/c	87,000	63,000					
	3,69,750	2,41,850	1,46,000		3,69,750	2,41,850	1,46,000

Working Notes:

1. Calculation of Purchase consideration

Net Payment Method

	₹
Equity Shares = 10,000 @ ₹15	1,50,000
Preference Shares = 15,000 @ ₹15	2,25,000
Debentures = 20,000 @ ₹14,725	2,94,500
	6,69,500

2. As whole business of the firm was sold to Preet Limited, cash balance of the firm ₹1,00,000 is also transferred to realization account. Cash brought in by N equal to Dr. balance appearing in his account, after distribution of preference shares and debentures in profit sharing ratio would be shared by L and M equally. The balance amount payable to L and M would be settled by transfer of equity shares in Preet Company.

Question 19

Explain the nature of Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership?

(MTP March 2018) (5 Marks)

Answer:

Nature of Limited Liability Partnership: A limited liability partnership is a body corporate formed and incorporated under the LLP Act, 2008 and is a legal entity separate from that of its partners. A limited liability partnership shall have perpetual succession and any change in the partners of a limited liability partnership shall not affect the existence, rights or liabilities of the limited liability partnership.

Designated partners: Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.

Question 20

X, Y and Z are in partnership sharing profits and losses in the ratio of 5:4:4. The Balance Sheet of the firm as on 31st March, 2016 is as below:

Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

Assets were realised piecemeal as under:

	₹
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000
Dissolution expenses were provided for estimated amount of	₹12,000
The creditors were settled finally for	₹63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

(MTP April, 2018) (15 Marks)

Answer:

Statement showing distribution of cash amongst the partners

		Trade Payable	Y's Loan	X (₹)	Capitals Y (₹)	Z (₹)
Balance Due		66,000	18,000	60,000	40,000	50,000
Including 1st Instalment amount with the firm ₹(1100 + 74,600)	75,700					
Less: Dissolution expenses provided for	(12,000)					
	63,700					
Less: Z's remuneration of 1% on assets realized (74,600 x 1%)	(746)					
	62,954					

		Trade Payable	Y's Loan	X (₹)	Capitals Y (₹)	Z (₹)
Less: Payment made to Trade Payables	62,954	62,954				
Balance due	Nil	3,046				
2nd instalment realized	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to Trade Payables	(646)	(646)				
Transferred to P & L A/c		2,400				
	67,962					
Less: Payment for Y's loan A/c	(18,000)		(18,000)			
Amount available for distribution to partners	49,962		Nil			
Less: Z's remuneration of 10% of the amount distributed to partners (49,962 x 10/110)	(4,542)					
Balance to be distributed to partners on the basis of HRCM	45,420					
Less: Paid to Z (W.N.)	(2,000)					(2,000)
	43,200					48,000
Less: Paid to X and Z in 5:4 (W.N.)	(18,000)			(10,000)	—	(8,000)
Balance due	25,420			50,000	40,000	40,000
Less: Paid to X, Y & Z in 5:4:4	25,420			(9,778)	(7,821)	(7,821)
	Nil			40,222	32,179	32,179
Amount of 3rd instalment	40,000					
Less: Z's remuneration of 1% on assets realized (40,000 x 1%)	(400)					
	39,600					
Less: Z's remuneration of 10% of the amount distributed to partners (39,600 x 10/110)	(3,600)					
	36,000					
Less: Paid to X, Y, Z in 5:4:4 for (W.N.)	36,000			(13,846)	(11,077)	(11,077)
	Nil			26,376	21,102	21,102
Amount of 4th and last instalment	28,000					

		Trade Payable	Y's Loan	X (₹)	Capitals Y (₹)	Z (₹)
Less: Z's remuneration of 1% on assets realized (28,000 x 1%)	(280)					
	27,720					
Less: Z's remuneration of 10% of the amount distributed to partners (27,720 x 10/110)	(2,520)					
	25,200			(9,692)	(7,754)	(7,754)
Less: Paid to X, Y and Z in 5:4:4	Nil					
Loss suffered by partners				16,684	13,348	13,348

Working Note:

- (i) ₹1100 added to the first instalment received on sale of assets represents the Cash in Bank
- (ii) The amount due to Creditors at the end of the utilization of First Instalment is ₹3046. However, since the creditors were settled for ₹63,600 only the balance ₹646 were paid and the balance ₹2400 was transferred to the Profit & Loss Account.

(iii) Highest Relative Capital Basis

		X ₹	Y ₹	Z ₹
Balance of Capital Accounts (A)		60,000	40,000	50,000
Profit sharing ratio		5	4	4
Capital Profit sharing ratio		12,000	10,000	12,500
Capital in profit sharing ratio taking Y's Capital as base (B)		50,000	40,000	40,000
Excess of X's Capital and Z's Capital (A-B) = (C)		10,000	Nil	10,000
Again repeating the process				
Profit sharing ratio		5		4
Capital Profit sharing ratio		2,000		2,500
Capital in profit sharing ratio taking X's Capital as base (D)		10,000		8,000
Excess of Z's Capital (C - D) = (E)		Nil		2,000

Therefore, firstly ₹2,000 is to be paid to Z, then X and Z to be paid in proportion of 5:4 upto ₹18,000 to bring the capital of all partners X, Y and Z in proportion to their profit sharing ratio. Thereafter, balance available will be paid in the profit sharing ratio 5:4:4 to all partners viz X, Y and Z.

Question 21

State the circumstances when LLP can be wound up by the Tribunal.

(MTP April, 2018) (5 Marks)

Answer

Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

Question 22

G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Fixed capital			Fixed assets		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	<u>12,000</u>	60,000	Plant & Machinery	15,360	
Current accounts			Motor car	<u>840</u>	73,800
G	600		Current assets		
S	10,800		Stock		4,680
J	<u>(480)</u>	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	120	2,280
Trade creditors		14,880	Cash at bank		240
			Miscellaneous losses		
			Profit & loss a/c		14,400
		95,400			95,400

On 1st April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of ₹600, but no cash passed specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	₹
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid ₹14,040 in full settlement of their debts. The cost of dissolution amounted to ₹1,800, The loan from G was repaid; G and S were both fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

You are. required to prepare:

- (i) Cash & Bank account
- (ii) Realization account, and
- (iii) Partner's Fixed Capital Accounts (after transferring current accounts balances)

Apply Garner Vs. Murray rule.

(15 Marks, November 2019, New Course)

Answer

Cash & Bank Account

	₹		₹
To Balance b/d	240	By Realisation A/c-Creditors	14,040
To Realisation A/c-		By Realisation A/c-Expenses	1,800
Land	8,400	By G's Loan A/c	9,600
Plant and Machinery	6,000	By G's Capital A/c	16,280
Stock	3,600	By S's Capital A/c	28,680
Trade Debtors	1,920		
To Capital Accounts:			
G 27,200			
S 20,400			
J 2,640	50,240		
	70,400		70,400

Realisation Account

	₹		₹
To Goodwill	48,000	By Trade Creditors	14,880
To Land	9,600	By Provision for Bad Debts	120
To Plant and Machinery	15,360	By Bank:	
To Motor Car	840	Land	8,400
To Stock	4,680	Plant and Machinery	6,000
To Sundry Debtors	2,400	Stock	3,600
To Bank (Creditors)	14,040	Debtors	<u>1,920</u>
To Bank (Expenses)	1,800		19,920
		By G (Car)	600
		By Capital Accounts:	
		(Loss)	
		G	27,200
		S	20,400
		J	13,600
	96,720		61,200
			96,720

Partners' Fixed Capital Accounts

	G	S	J		G	S	J
	₹	₹	₹		₹	₹	₹
To Current A/c (Transfer)	5,800	—	3,680	By Balance b/d	24,000	24,000	12,000
To Realisation A/c (Loss)	27,200	20,400	13,600	By Current A/c (Transfer)	—	6,000	—
To Realisation A/c (Car)	600	-	—	By Bank	—	—	2,640
To J's Capital A/c (Deficiency)	1,320	1,320	—	By Bank* (realisation loss)	27,200	20,400	—
To Bank*	16,280	28,680	—	By G & S (Deficiency)	—	—	2,640
	51,200	50,400	17,280		51,200	50,400	17,280

Note:

1. G, S and J will bring cash to make good their share of the loss on realization.
2. As per Garner Vs. Murray rule, solvent partners - G and S have to bear the loss due to insolvency of a partner J in their fixed capital ratio.

**Alternatively, posting may be done for the net amount being received from/paid to G and S respectively.*

Working Note:

Current account balances of partners have been arrived after adjusting profit and loss account debit balance as follows:

	Current account balance	Profit & loss		
G	600	(6,400)	5,800	Dr.
S	10,800	(4,800)	6,000	Cr.
J	(480)	(3,200)	3,680	Dr.

Question 23

AD, BD & SD are partners sharing profits and losses in the ratio of 5:3:2. Their capitals were ₹13,440, ₹8,400, ₹11,760 respectively. Liabilities and assets of the firm are as under:

Liabilities:	₹
Trade creditors	2,800
Loan from partners	1,400
Assets of the firm:	
Patent	1,400
Furniture	2,800
Machinery	1,680
Stock	5,600

The assets realized in full in the order in which they are listed above. BD is insolvent.

You are required to prepare a statement showing the distribution of cash as and when available, applying maximum possible loss procedure.

(5 Marks, November 2019, New Course)

Answer

Statement of Distribution of Cash

	Realization	Trade Creditor	Loans from partners	Partners' Capitals			
				AD	BD	SD	Total
	₹	₹	₹	₹	₹	₹	₹
Balances due (1)		2,800	1,400	13,440	8,400	11,760	33,600
(i) Sale of Patent	1,400	<u>(1,400)</u>	=				
		1,400	1,400				
(ii) Sale of furniture	2,800	<u>(1,400)</u>	<u>(1,400)</u>				
(iii) Sale of machinery	1,680						
Maximum possible loss (total of capitals ₹ 33,600 less cash available ₹ 1,680) allocated to partners in the profit sharing ratio i.e. 5 : 3 : 2	₹ 31,920			<u>(15,960)</u>	<u>(9,576)</u>	<u>(6,384)</u>	<u>(31,920)</u>
Amounts at credit				(2,520)	(1,176)	5,376	1,680
Deficiency of AD and BD written off against SD				<u>2,520</u>	<u>1,176</u>	<u>(3,696)</u>	=
Amount paid (2)				=	=	<u>1,680</u>	<u>1,680</u>
Balances in capital accounts (1 – 2) = (3)				13,440	8,400	10,080	31,920
(iv) Sale of stock	5,600						
Maximum possible loss	<u>26,320</u>						
(₹ 31,920 – ₹ 5,600) allocated to partners in the ratio 5 : 3 : 2				<u>(13,160)</u>	<u>(7,896)</u>	<u>(5,264)</u>	<u>(26,320)</u>
Amounts at credit and cash paid (4)				<u>280</u>	<u>504</u>	<u>4,816</u>	<u>5,600</u>
Balances in capital accounts left unpaid— Loss (3 – 4) = (5)				<u>13,160</u>	<u>7,896</u>	<u>5,264</u>	<u>26,320</u>

Question 24

Give an analytical statement of distinction between an ordinary partnership firm and a limited liability partnership.

(4 Marks, November 2019, New Course)

Answer**Distinction between an ordinary partnership firm and an LLP**

	Key Elements	Partnerships	LLPs
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

Question 25

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

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

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

- Adil had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Adil's loan and ₹ 300 as interest thereon.
- One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.
- The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- The remaining assets realized the following amount: ₹
 Plant and Machinery 17,000
 Fixtures and Fittings 1,000
 Stock 9,000
 Debtors 16,500
 Patents at 50% of their book value.
- The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
- The expenses of realization amounted to ₹ 2,300.

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

(May 2020)

Answer

Realization Account

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

Bank Account

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

Partners' Capital Accounts

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

Working Notes:1. **Ram's Loan Account**

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

2. **Sundry Creditors Account**

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

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

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

4. **Joint Life Policy Account**

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

5. **Patents and Trademarks Account**

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

Question 26

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

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

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

The following further information is furnished:

- Pratham & Kaushal share the profits in the ratio 3 : 2.
- Pratham was receiving salary of ₹ 750 p.m. from the very inception of the firm in 2012 in addition to share of profit.
- The future profit ratio between Pratham, Kaushal & Rohan will be 2:1:1. Pratham will not get any salary after the admission of Rohan.

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

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

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

- (e) The cash trading profit for the year ended 31st March, 2020 was ₹ 50,000 before depreciation.
 (f) The partners had drawn each ₹ 1,000 p.m. as drawings.
 (g) The value of other assets and liabilities as on 31st March, 2020 were as under:

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

- (h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Kaushal's loan. The loan along with interest would be repaid within next 12 months.
 (i) Investments (non -trading) are held from inception of the firm and interest is received @ 10% p.a.
 (j) The partners applied for conversion of the firm into Karma Ltd., a Private Limited Company. Certificate was received on 1st April, 2020. They decided to convert Capital Accounts of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2020. If necessary, partners have to subscribe to fresh capital or withdraw.

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

(May 2020)

Answer

M/s Pratham, Kaushal and Rohan

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

	₹		₹
To Depreciation on Machinery	6,000	By Trading Profit	50,000
To Depreciation on furniture	500	By Interest on Investment	5,000

	₹		₹
To Interest on Kaushal's loan	900		
To Net Profit to :			
Pratham's Capital A/c	23,800		
Kaushal's Capital A/c	11,900		
Rohan's Capital A/c	<u>11,900</u>		
	55,000		55,000

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

	Notes No.	₹
I Equity and Liabilities		
Shareholders' funds		
Share capital		1,41,600
Current liabilities		
Short term borrowings	1	15,900
Trade payables		<u>20,000</u>
Total		<u>1,77,500</u>
II Assets		
Non-current assets		
Property, plant & Equipment	2	63,500
Non-current investments		50,000
Current assets		
Inventories		15,000
Trade receivables		30,000
Cash and cash equivalents		<u>19,000</u>
Total		<u>1,77,500</u>

Notes to Accounts

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

Working Notes:**1. Calculation of goodwill**

	2014-15 ₹	2015-16 ₹	2016-17 ₹	2017-18 ₹	2018-19 ₹
Profits/(Loss)	25,000	12,500	(2,500)	35,000	30,000
Adjustment for extraneous profit of 2014-15 and abnormal loss of 2016-17	(40,000)	-	20,000	—	—
	(15,000)	12,500	17,500	35,000	30,000
Add: Salary of Pratham (750 x12)	9,000	9,000	9,000	9,000	9,000
	(6,000)	21,500	26,500	44,000	39,000
Less: Interest on non-trading investment	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
	(11,000)	16,500	21,500	39,000	34,000
Total Profit from 2015-16 to 2018-19					1,11,000
Less: Loss for 2014-15					(11,000)
					1,00,000
Average Profit					20,000
Goodwill equal to 3 years' purchase					60,000
Contribution from Rohan for $\frac{1}{4}$ share					15,000

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

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

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

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

4. Partners' Capital Accounts

	Pratham	Kaushal	Rohan		Pratham	Kaushal	Rohan
	₹	₹	₹		₹	₹	₹
To Drawings (1,000 x12)	12,000	12,000	12,000	By Balance b/d	50,000	30,000	—
To Pratham			6,000	By General Reserve	12,000	8,000	—
To Kaushal			9,000	By Rohan	6,000	9,000	—
To Balance c/d	79,800	46,900	14,900	By Bank (15,000 + 15,000)	—	—	30,000
				By Profit & Loss A/c	23,800	11,900	11,900
	91,800	58,900			91,800	58,900	41,900

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

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

6. Cash balance as on 31.3.2020

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

7. Distribution of shares – Conversion into Company

		₹
Capital:	Pratham	79,800
	Kaushal	46,900
	Rohan	<u>14,900</u>
Share Capital		<u>1,41,600</u>
Distribution of shares:	Pratham (1/2)	70,800
	Kaushal (1/4)	35,400
	Rohan (1/4)	35,400

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

Question 27

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

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

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

You are provided the following information:

1. Machinery is to be transferred at ₹ 1,40,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

You are required to prepare:

- (a) Statement showing the workings of the Number of Shares of each class to be issued by the company, to each partner.
- (b) Capital Accounts showing all adjustments required to dissolve the Partnership.
- (c) Balance Sheet of the Company immediately after acquiring the business of the Partnership and Issuing of Shares.

(May 2020)

Answer

(a) Number of Shares to be issued to Partners

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

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

(b) Partners' Capital Accounts

Particulars	Mohit	Neel	Om	Particulars	Mohit	Neel	Om
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280

Particulars	Mohit	Neel	Om	Particulars	Mohit	Neel	Om
To Bank – Additional drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

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

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

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

Notes to Accounts

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

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

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

2. Statement showing Additional Drawings in Cash**(a) Funds available for Drawings**

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

(b) Ascertainment of Additional Drawings**Question 28**

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

- (1) Applicable Law
- (2) Number of Partners
- (3) Ownership of Assets
- (4) Liability of Partners/Members

(May 2020)

Answer**Distinction between an ordinary partnership firm and an LLP**

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm.	The LLP as an independent entity can own assets

Key Elements	Partnerships	LLPs
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

Buy-back of Shares

Question 1

Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2017:

	₹ in lakhs	₹ in lakhs
Equity & Liabilities		
Shareholders' Funds		
Equity share capital (fully paid up shares of ₹10 each)		2,400
Reserves and Surplus		
Securities Premium	350	
General Reserve	530	
Capital Redemption Reserve	400	
Profit & Loss Account	340	1,620
Non-current Liabilities		
12% Debentures		1,500
Current Liabilities		
Trade Payables	1,490	
Other Current Liabilities	390	1,880
Total		7,400
Assets		
Non-current Assets		
Fixed Assets		4,052
Current Assets		
Current Investments	148	
Inventories	1,200	
Trade Receivables	520	
Cash and Bank	1,480	3,348
Total		7,400

- (i) On 1st April, 2017, the company announced buy-back of 25% of its equity shares @ ₹5 per share. For this purpose, it sold all its investment for ₹150 lakhs.
- (ii) On 10th April, 2017 the company achieved the target of buy-back.
- (iii) On 30th April, 2017, the company issued one fully paid up equity share of ₹10 each by way of bonus for every four equity shares held by the equity shareholders by capitalization of Capital Redemption Reserve.

You are required to pass necessary journal entries and prepare the Balance Sheet of Alpha Ltd. after bonus issue.

(May 2018) (10 Marks)

Question 2

Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (₹)
Equity shares of ₹10 each, fully paid up	12,50,000
Bonus shares of ₹10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹10 each, on 1st April, 2016 at ₹20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy-back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

(RTP May 2018)

Answer:

As per the information given in the question, buy-back of 25,000 shares @ ₹20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of ₹10 each @ ₹20 per share)	5,00,000	5,00,000
(b)	Equity share capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	Note No	Amount
EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
(a) Long-term borrowings	3	28,75,000
3 Current liabilities		
(a) Other current liabilities	4	<u>19,50,000</u>
Total		81,50,000
ASSETS		
1 Non-current assets		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000 - 5,00,000)		<u>35,00,000</u>
Total		<u>81,50,000</u>

Notes to Accounts

	₹	₹
1. Share Capital		
Equity share capital		
1,10,000 Equity shares of ₹10 each		11,00,000

		₹	₹
2. Reserves and Surplus			
Profit and Loss A/c		1,25,000	
Revenue reserves	15,00,000		
Less: Transfer to CRR	<u>(2,50,000)</u>	12,50,000	
Securities premium	2,50,000		
Less: Utilization for share buy-back	<u>(2,50,000)</u>	—	
Share Option Outstanding Account		4,00,000	
Capital Reserve		2,00,000	
Capital Redemption Reserve		<u>2,50,000</u>	<u>22,25,000</u>
3. Long-term borrowings			
Secured			
12% Debentures		18,75,000	
Unsecured loans		<u>10,00,000</u>	<u>28,75,000</u>
4. Other Current Liabilities			
Current maturities of long term borrowings		16,50,000	
Unpaid dividend		1,00,000	
Application money received for allotment due for refund		<u>2,00,000</u>	<u>19,50,000</u>

Answer:

In the books of Alpha Limited
Journal Entries

Date 2017	Particulars		Dr. (₹ in lakhs)	Cr.
April 1	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)		150	148 2
April 10	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)		600 300	900
	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 60 Lakh Equity Shares)		900	900

Date 2017	Particulars		Dr. (₹ in lakhs)	Cr. (₹ in lakhs)
April 10	General reserve A/c	Dr.	530	
	Profit and Loss A/c	Dr.	70	
	To Capital redemption reserve (CRR) A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			600
April 30	Capital redemption reserve A/c	Dr.	450	450
	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)			
	Bonus shares A/c	Dr.	450	
	To Equity share capital A/c (Being issue of one bonus equity share for every four equity shares held)			450
	Profit on sale of Investment	Dr.	2	
	To Profit and Loss A/c (Profit on sale transfer to Profit and Loss A/c)			2

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

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

Particulars	Note No.	Amount (₹ in Lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,250
(b) Reserves and Surplus	2	872
(2) Non-Current Liabilities		
(a) Long-term borrowings -12% Debentures		1,500
(3) Current Liabilities		
(a) Trade payables		1,490
(b) Other current liabilities		390
Total		6,502
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		4,052

Particulars	Note No.	Amount (₹ in Lakhs)
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		520
(d) Cash and cash equivalents (W.N. 2)		730
Total		6,502

Notes to Accounts

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

Working Notes:

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

2. Cash at bank after issue of bonus shares

	₹ in lakhs
Cash balance as on 1st April, 2017	1480
Add: Sale of investments	150
	1630
Less: Payment for buy back of shares	(900)
	730

Question 3

SMM Ltd. has the following capital structure as on 31st March, 2017: ₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(MTP March 2018) (12 Marks)

Answer: Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

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

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

₹ in crores				
			Debit	Credit
(a)	Equity share buyback account	Dr.	720	720
	To bank account			
	(Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium payable on buyback account	Dr.	480	
	To equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities premium account	Dr.	400	
	General reserve/Profit & Loss A/c	Dr.	80	
	To premium payable on buyback account			480
	(Being premium payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			

₹ in crores			
		Debit	Credit
(c)	General Reserve/Profit & Loss A/c To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)	Dr. 240	240

Working Notes:**1. Shares Outstanding Test**

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

2. Resources Test

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

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

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

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

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

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

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

$$= 1280 - x = y$$

(1)

Equation 2: Maximum Permitted Buy Back X Nominal Value Per Share/Offer Price Per Share
 $= [y/30 \times 10] = x$ or $3x = y$ (2)

by solving the above two equations we get

$$x = ₹320$$

$$y = ₹960$$

Question 4

The following was the Balance Sheet of Omega Ltd. as on 31st March, 2016.

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹10 each Fully Paid Up	8,000	Investments	3,000
10% Redeemable Pref. Shares of ₹10 each Fully Paid Up	2,500	Cash at Bank	1,650
		Other Current Assets	8,250
Reserves & Surplus			
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2016 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 15% of its Equity Shares at ₹20 per Share. In order to make cash available, the Company sold all the Investments for ₹3,150 lakhs and raised a Bank Loan amounting to ₹400 lakh on the Security of the Company's Plant.

You are required to prepare:

- Journal entries for the above and
- Company's Balance sheet immediately thereafter.

(MTP April 2018) (15 Marks)

Answer: (i) Journal Entries in the books of Omega Ltd. (₹ in lakhs)

	Particulars		₹	₹
1	Bank A/c Dr. To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)		3,150	3,000 150
2	10% Redeemable Preference Share Capital A/c Dr. Premium on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)		2,500 250	2,750

	Particulars		₹	₹
3	Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)		250	250
4	Equity Share Capital A/c Dr. Premium on buyback Dr. To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)		1,200 1,200	2,400
5	Securities Premium A/c (800-250) Dr. General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)		550 650	1,200
6	Bank A/c To Bank Loan A/c (Being loan taken from bank to finance buyback and redemption of shares)		400	400
7	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		2,750 2,400	5,150
8	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		3,700	3,700

* The difference between this figure and guaranteed residual value (₹50,000) is due to rounding off.

(ii) Balance Sheet of Omega Ltd. (after Redemption and Buyback) (₹Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	6,800
	(b) Reserves and Surplus	2	6,800
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,400
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,300

	Particulars	Note No	Amount
(II)	ASSETS		
(1)	Non-Current Assets		
	Fixed Assets		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		50
	(b) Other Current Assets		8,250
			22,300

Notes to Accounts

		₹ in Lakhs		
1.	Share Capital 680 lakh Equity Shares of ₹10 each Fully Paid up (120 lakh Equity Shares bought back)			6,800
2.	Reserves and Surplus	6,000		
	General Reserve	(650)		
	Less: Adjustment for premium paid on buy back			
	Less: Transfer to CRR	(3,700)	1,650	
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	3,700	4,700	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	(550)	—	
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	6,800
3.	Long-term borrowings		5,000	
	Secured			
	9 % Debentures			
	Term Loans - From Banks		400	5,400

Working Note**Bank Account**

Receipts	Amount (₹ Lakhs)	Payments	Amount (₹ Lakhs)
To balance b/d	1,650	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	3,150	By Equity Shareholders A/c	2,400
To Bank Loan A/c (Loan received)	400	By Balance c/d (Balancing figure)	50
	5,200		5,200

Income tax on the above will not be included in Revenue A/c of an insurance company.

Question 5

The following summarized Balance Sheet Pee Limited (a non-listed company) furnishes as at 31st March, 2017:

	₹	₹
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of ₹10 each fully paid up	25,00,000	
5,000,10% Preference shares of ₹100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹10 each fully paid up	24,00,000	
3,000,10% Preference shares of ₹100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000
Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹60 per share. For this purpose, it sold all of its investment for ₹25,00,000.

The company achieved its target of buy-back. You are required to:

- Give necessary journal entries and
- Give the Balance Sheet of the company after buy back of shares.

(RTP November 2018)

Answer:

Journal Entries in the books of Pee Limited

	Particulars	Dr.	Cr.	
(i)	Bank Account	Dr.	25,00,000	
	Profit and Loss Account	Dr.	5,00,000	
	To Investment Account			30,00,000
	(Being the investments sold at loss for the purpose of buy back)			
(ii)	Equity Share capital account	Dr.	4,80,000	
	Premium payable on buy back Account	Dr.	24,00,000	
	To Equity shares buy back Account			28,80,000
	(Being the amount due on buy back)			
(iii)	Securities Premium Account	Dr.	24,00,000	
	To Premium payable on buy back Account			24,00,000
	(Being the premium payable on buy back adjusted against securities premium account)			
(iv)	Revenue Reserve Account	Dr.	1,80,000	
	To Capital Redemption Reserve Account			1,80,000
	(Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000-3,00,000))			
(v)	Equity shares buy-back Account	Dr.	28,80,000	
	To Bank Account			28,80,000
	(Being the payment made on buy back)			

Balance Sheet of Pee Limited as on 1st April, 2017
(After buy back of shares)

Particulars	Note No	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		<u>16,00,000</u>
Total		<u>1,06,20,000</u>
II. Assets		
(1) Non-current assets		
(a) Fixed assets		76,00,000
(2) Current assets		<u>30,20,000</u>
Total		<u>1,06,20,000</u>

Notes to Accounts

		₹	₹
1 Share Capital			
Authorised capital:			30,00,000
Issued and subscribed capital:			
1,92,000 Equity shares of ₹10 each fully paid up	1,92,0000		
3,000 10% Preference shares of ₹100 each fully paid up	3,00,000		22,20,000
Reconciliation of share capital			
Opening no. of shares	2,40,000		
Buy back of shares during the year	48,000		1,92,000
During the year the company has buy back of 48,000 shares			
2 Reserves and Surplus			
Capital reserve	10,00,000		
Capital redemption reserve	1,80,000		
Securities Premium	27,00,000		
Less: Premium payable on buy back of shares	<u>24,00,000</u>	3,00,000	
Revenue reserve	25,00,000		
Less: Transfer to Capital redemption reserve	<u>1,80,000</u>	23,20,000	
Profit and loss A/c	35,00,000		
Less: Loss on investment	<u>5,00,000</u>	30,00,000	68,00,000

Question 6

SMM Ltd. has the following capital structure as on 31st March, 2017:

₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(MTP August 2018) (12 Marks)

Answer: Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

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

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

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

Working Notes:

1. Shares Outstanding Test

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

2. Resources Test

Particulars	
Paid up capital (₹ in crores)	1,200
Free reserves (₹ in crores) (1,080 + 400 + 200)	<u>1,680</u>
Shareholders' funds (₹ in crores)	<u>2,880</u>

Particulars	
25% of Shareholders fund (₹ in crores)	₹720 crores
Buy back price per share	₹30
Number of shares that can be bought back	24 crores shares

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

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

Question 7

Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016:

Liabilities	Amount (₹)
Equity shares of ₹10 each, fully paid up	12,50,000
Bonus shares of ₹10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	<u>2,00,000</u>
	86,50,000
Fixed Assets	46,50,000
Current Assets	<u>40,00,000</u>
	86,50,000

The Company wants to buy back 25,000 equity shares of ₹10 each, on 1st April, 2016 at ₹20 per share. Buy back of shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The buy -back of shares by the Company is also within the

provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to prepare the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

(MTP October 2018) (15 Marks)

Answer:

As per the information given in the question, buy-back of 25,000 shares @ ₹20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of ₹10 each @ ₹20 per share)	5,00,000	5,00,000
(b)	Equity share capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000

Balance Sheet of Complicated Ltd. as on 1st April, 2016

Particulars	Note No	Amount ₹
EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
(a) Long-term borrowings	3	28,75,000
3 Current liabilities		
(a) Other current liabilities	4	<u>19,50,000</u>
Total		<u>81,50,000</u>
ASSETS		
1 Non-current assets		
(a) Fixed assets		46,50,000
2 Current assets (40,00,000-5,00,000)		<u>35,00,000</u>
Total		<u>81,50,000</u>

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	1,10,000 Equity shares of ₹10 each		11,00,000
2.	Reserves and Surplus		
	Profit and Loss A/c	1,25,000	
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	(2,50,000)	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	(2,50,000)	-
	Share Option Outstanding Account	4,00,000	
	Capital Reserve	2,00,000	
	Capital Redemption Reserve	2,50,000	22,25,000
3.	Long-term borrowings		
	Secured		
	12% Debentures	18,75,000	
	Unsecured loans	10,00,000	28,75,000
4.	Other Current Liabilities		
	Current maturities of long term borrowings	16,50,000	
	Unpaid dividend	1,00,000	
	Application money received for allotment due for refund	2,00,000	19,50,000

Question 8

Alpha Limited furnishes the following summarized Balance Sheet as at 31st March, 2017:

Liabilities	(₹ in lakhs)	Assets	(₹ in lakhs)
Equity share capital	2,400	Machinery	3,600
(fully paid up shares of ₹10 each)		Furniture	450
Securities premium	350	Investment	148
General reserve	530	Inventory	1,200
Capital redemption reserve	400	Trade receivables	500
Profit & loss A/c	340	Cash at bank	1,500
12% Debentures	1,500		
Trade payables	1,400		
Other current liabilities	478		
	7.398		7.398

On 1st April, 2017, the company announced the buy back of 25% of its equity shares @ ₹15 per share. For this purpose, it sold all of its investments for ₹150 lakhs.

On 5th April, 2017, the company achieved the target of buy back.

You are required to:

- (1) Pass necessary journal entries for the buy-back.
- (2) Prepare Balance Sheet of Alpha Limited after buy-back of the shares.

(RTP May, 2019)

Answer

In the books of Alpha Limited
Journal Entries

Date 2017	Particulars	Dr.	Cr. (₹ in lakhs)
April 1	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	150	148 2
April 5	Equity share capital A/c Dr. Securities premium A/c Dr. To Equity shares buy back A/c (Being the amount due to equity shareholders on buy back)	600 300	900
	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 60 Lakh Equity Shares)	900	900
April 5	General reserve A/c Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of bought back shares from free reserves transferred to capital redemption reserve account as per the law)	530 70	600

Balance Sheet (After buy back)

Particulars	Note No	Amount (₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,800
(b) Reserves and Surplus	2	1,322
(2) Non-Current Liabilities		
(a) Long-term borrowings -12% Debentures		1,500
(3) Current liabilities		
(a) Trade payables		1,400
(b) Other current liabilities		478
Total		6,500
II. Assets		
(1) Non-current assets		
(a) Property, Plants Equipment		
(i) Tangible assets	3	4,050

Particulars	Note No	Amount (₹ in lakhs)
(2) Current assets		
(a) Current investments		
(b) Inventory		1,200
(c) Trade receivables		5,00
(d) Cash and cash equivalents (W.N.)		750
Total		6,500

Notes to Accounts

			(₹ in lakhs)
1. Share Capital			
Equity share capital (Fully paid up shares of ₹10 each)			1800
2. Reserves and Surplus			
General Reserve	530		
Less: Transfer to CRR	(530)	-	
Capital Redemption Reserve	400		
Add: Transfer due to buy-back of shares from P/L	70		
Transfer due to buy-back of shares from Gen. res.	530	1,000	
Securities premium	350		
Less: Adjustment for premium paid on buy back	(300)	50	
Profit & Loss A/c	340		
Add: Profit on sale of investment	2		
Less: Transfer to CRR	(70)	272	1,322
3. Tangible assets			
Machinery		3,600	
Furniture		450	4,050

Working Note:**Cash at bank after buy-back**

	₹ in lakhs
Cash balance as on 1st April, 2017	1,500
Add: Sale of investments	150
	1,650
Less: Payment for buy back of shares	(900)
	750

Question 9

SMM Ltd. has the following capital structure as on 31st March, 2017:

₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(MTP-March 2019) (12 Marks)

Answer:

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

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

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

₹ in crores			
		Debit	Credit
(a)	Equity share buyback account To Bank account (Being payment for buy back of 24 crores equity shares of ₹10 each @ ₹30 per share)	Dr. 720	720
(b)	Equity share capital account Premium Payable on buyback account To Equity share buyback account (Being cancellation of shares bought back)	Dr. 240 Dr. 480	720

₹ in crores				
			Debit	Credit
	Securities Premium account	Dr.	400	
	General Reserve/Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve/Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:**1. Shares Outstanding Test**

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

2. Resources Test

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

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

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

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

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

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

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

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

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

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

by solving the above two equations we get

$$x = ₹320$$

$$y = ₹960$$

Question 10

SMM Ltd. has the following capital structure as on 31st March, 2017:

₹ in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of ₹10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

(MTP-April 2019) (10 Marks)

Answer:

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

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

Journal Entries for the Buy Back
(applicable only when loan fund is ₹3,200 crores)

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

Working Notes:**1. Shares Outstanding Test**

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

2. Resources Test

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

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

	Particulars	When loan fund is	
		₹3,200 crores	₹6,000 crores
(a)	Loan funds (₹)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	1,600	3,000

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

Question 11

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In ₹
Share Capital	
Equity Shares of ₹10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	15,50,000
	93,00,000
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	34,50,000
	93,00,000

Super Limited wants to buy back 35,000 equity shares of ₹10 each fully paid up on 1st April, 2018 at ₹30 per share.

Buy back of shares is fully authorized by its articles and necessary resolutions have been 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 the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

(May 2019) (10 Marks)

Answer:

Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

1. Shares Outstanding Test

Particulars	(Shares)
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	
Paid up capital (₹)	17,00,000
Free reserves (₹) (23,50,000 + 2,50,000 + 2,00,000)	<u>28,00,000</u>
Shareholders' funds (₹)	<u>45,00,000</u>
25% of Shareholders fund (₹)	11,25,000
Buy back price per share	₹30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

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

	Particulars	₹
(a)	Loan funds (₹) (22,50,000+8,50,000+15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (₹) (a/2)	23,25,000
(c)	Present equity/shareholders fund (₹)	45,00,000
(d)	Future equity/shareholders fund (₹) (see W.N.) (45,00,000 – 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (₹) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ ₹30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

* As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy -back. Further under Section 69 (1), on buy -back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy -back has to be excluded from the present equity.

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back [least of the above]	37,500

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2018.

However, company wants to buy-back only 35,000 equity shares @ ₹30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Working Note:

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

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

Then

$$(45,00,000 - x) - 23,25,000 = y \quad (1)$$

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

by solving the above equation, we get

$$x = ₹5,43,750$$

$$y = ₹16,31,250$$

Question 12

Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹10 each at ₹22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11% preference shares of ₹10 each at par, the entire amount being payable with applications. The company uses ₹16 lakhs of its balance in Securities

Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

(RTP November 2019)

Answer:

Journal Entries in the books of Umesh Ltd.

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000

			₹	₹
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr.	16,00,000 32,00,000	48,00,000

Working Notes:**1. Calculation of amount used from General Reserve Account**

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)	(10,00,000)
Less: Utilization of Securities Premium Account	<u>(16,00,000)</u>
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,00
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	<u>(10,00,000)</u>
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

Question 13

X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018:

Liabilities	(in ₹)	(in ₹)
Share Capital		
Equity Share Capital of ₹20 each fully paid up	50,00,000	
10,000, 10% Preference Share of ₹100 each fully paid up,	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total		1,21,50,000
Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total		1,21,50,000

The shareholders adopted the resolution on the date of the above mentioned Balance Sheet to:

- (1) Buy back 25% of the paid up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹30 per share.
- (2) To finance the buy back of share company:
 - (a) Issue 3000, 14% debenture of ₹100 each at a premium of 20%.
 - (b) Issue 2500, 10% preference share of ₹100 each
- (3) Sell investment worth ₹1,00,000 for ₹1,50,000.
- (4) Maintain a balance of ₹2,00,000 in Revenue Reserve.
- (5) Later the company issue three fully paid up equity share of ₹20 each by way of bonus share for every 15 equity share held by the equity shareholder.

You are required to pass the necessary journal entries to record the above transactions and prepare Balance Sheet after buy back.

(November 2019, New Course, 15 Marks)

Answer

In the books of X Limited
Journal Entries

	<i>Particulars</i>	Dr. ₹	Cr. ₹
1.	Bank A/c Dr. To 14 % Debenture A/c To Securities Premium A/c (Being 14 % debentures issued to finance buy back)	3,60,000	3,00,000 60,000
2.	Bank A/c Dr. To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)	2,50,000	2,50,000
3.	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	1,50,000	1,00,000 50,000
4.	Equity share capital A/c (62,500 x ₹20) Dr. Securities premium A/c (62,500 x ₹16) Dr. To Equity shares buy back A/c (62,500 x ₹36) (Being the amount due to equity shareholders on buy back)	12,50,000 10,00,000	22,50,000
5.	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)	22,50,000	22,50,000
6.	Revenue reserve Dr. Securities premium Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c * (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]	3,00,000 2,60,000 4,40,000	10,00,000
7.	Capital redemption reserve A/c Dr. To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)	7,50,000	7,50,000
8.	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of 3 bonus equity share for every 15 equity shares held)	7,50,000	7,50,000

*Alternatively, entry for combination of different amounts (from Revenue reserve, Securities premium and profit and Loss account.) may be passed for transferring the required amount to CRR.

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other **specified securities**. Issue of debentures has been excluded for the purpose of “**specified securities**” and the entire amount of ₹ 10,00,000 (after deducting only pref. share capital) has been credited to CRR while solving the question.

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

Particulars	Note No	Amount ₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	57,50,000
(b) Reserves and Surplus	2	27,10,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	15,50,000
(3) Current Liabilities		
(a) Trade payables		-
(b) current liabilities & Provisions		5,50,000
Total		1,05,60,000
II. Assets		
(1) Non-current assets		
(a) <i>Property, Plant and Equipment</i>		1,00,75,000
(2) Current assets		
(a) Investments		2,00,000
(b) Inventory		2,00,000
(c) Cash and cash equivalents (W.N. 2)		85,000
Total		1,05,60,000

Notes to Accounts

			₹
1.	Share Capital		
	Equity share capital (Fully paid up shares of ₹ 20 each)		
	(2,50,000-62,500+37,500 shares)	45,00,000	
	10% preference shares @ ₹ 100 each		
	(10,00,000 + 2,50,000)	<u>12,50,000</u>	57,50,000

			₹
2.	Reserves and Surplus		
	Capital Reserve	1,00,000	
	Revenue reserve	2,00,000	
	Securities premium	12,00,000	
	Add: Premium on debenture	60,000	
	Less: Adjustment for premium paid on buy back	(10,00,000)	
	Less: Transfer to CRR	(2,60,000)	Nil
	Capital Redemption Reserve		
	Transfer due to buy-back of shares from P&L		
	10,00,000		
	Less: Utilisation for issue of bonus shares	(7,50,000)	2,50,000
	Profit & Loss A/c	20,00,000	
	Add: Profit on sale of investment	50,000	
	Less: Transfer to CRR	(4,40,000)	16,10,000
	Dividend equalization reserve	(5,50,000)	5,50,000
			27,10,000
3	Long-term borrowings - 12% Debentures	12,50,000	
	- 14% Debentures	3,00,000	15,50,000

Working Notes:

1. Amount of bonus shares = $[(2,50,000 - 25\%)3/15] \times 20 = 37,500 \times 20 = 7,50,000$
2. Cash at bank after issue of bonus shares

	₹
Cash balance as on 30.3.2018	15,75,000
Add: Issue of debenture	3,60,000
Add: issue of preference shares	2,50,000
Add: Sale of investments	<u>1,50,000</u>
	23,35,000
Less: Payment for buy back of shares	<u>(22,50,000)</u>
	<u>85,000</u>

Question 14

On 1st April, 2018, XYZ Ltd., offered 150 shares to each of its 750 employees at ₹60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in period on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹72 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹67 per share.

On 31st March, 2019, 600 employees accepted the offer and paid ₹60 per share purchased. Nominal value of each share is ₹10.

You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

(November 2019, New Course, 5 Marks)

Answer

Fair value of an option = ₹ 67(considered on grant date) – ₹ 60 = ₹ 7

Number of shares issued = 600 employees x 150 shares/employee = 90,000 shares

Fair value of ESOP = 90,000 shares x ₹ 7 = ₹ 6,30,000

Vesting period = 1 year

Expenses recognized in 2018-19 = ₹ 6,30,000

Date	Particulars		₹	₹
31.03.2019	Bank (90,000 shares x ₹ 60) Dr.		54,00,000	
	Employees stock compensation expense A/c Dr.		6,30,000	
	To Share Capital (90,000 shares x ₹ 10)			9,00,000
	To Securities Premium (90,000 shares x ₹ 57)			51,30,000
	(Being option accepted by 600 employees & payment made @ ₹ 60 per share)			
	Profit & Loss A/c Dr.		6,30,000	6,30,000
	To Employees stock compensation expense A/c			
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)			

Question 15

The following was the summarized balance sheet of Mukta Ltd. as on 31st March, 2019:

Equity & liability	₹(in lakhs)	Assets	₹(in lakhs)
Authorised Capital:		Fixed Assets	1,12,000
Equity shares of ₹10 each	80,000	Investments	24,000
Issued Capital		Cash at Bank	13,200
Equity Shares of ₹10 each Fully Paid Up	64,000	Trade Receivables	66,000
10% Redeemable Preference Shares of 10 each, Fully Paid Up	20,000		
Reserves & Surplus:			

Equity & liability	₹(in lakhs)	Assets	₹(in lakhs)
Capital Redemption Reserve	8,000		
Securities Premium	6,400		
General Reserve	48,000		
Profit & Loss Account	2,400		
9% Debentures	40,000		
Trade Payables	26,400		
	2,15,200		2,15,200

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 25% of its Equity Shares at ₹20 per Share. In order to make Cash available, the Company sold all the Investments for ₹25,200 Lakhs and raised a Bank Loan amounting to ₹16,000 lakh on the Security of the Company's Plant.

Give the necessary Journal Entries considering that the buy back is authorised by the articles of company and necessary resolution is passed by the company for this. The amount of Securities premium will be utilized to the maximum extents allowed by law.

[MTP October, 2019, 12 Marks]

Answer

**Journal entries
In the books of Mukta Ltd.**

		Dr.	Cr.
		₹ in lakhs	
1	Bank A/c Dr. To Investments A/c To Profit and Loss A/c (Being Investments sold and, profit being credited to Profit and Loss Account)	25,200	24,000 1,200
2	10% Redeemable Preference Share Capital A/c Dr. Premium payable on Redemption of Preference Shares A/c Dr. To Preference Shareholders A/c (Being amount payable on redemption of Preference shares, at a Premium of 10%)	20,000 2,000	22,000
3	Securities Premium A/c Dr. To Premium payable on Redemption of Preference Shares A/c (Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)	2,000	2,000
4	Equity Share Capital A/c Dr. Premium payable on Buyback A/c Dr. To Equity Share buy back A/c (Being the amount due on buy-back)	16,000 16,000	32,000

			Dr.	Cr.
			₹ in lakhs	
5	Securities Premium A/c (6,400 -2,000) General Reserve A/c (balancing figure) To Premium payable on Buyback A/c (Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves.)	Dr. Dr.	4,400 11,600	16,000
6	Bank A/c To Bank Loan A/c (Being Loan taken from Bank to finance Buyback)	Dr.	16,000	16,000
7	Preference Shareholders A/c Equity Shares buy back A/c To Bank A/c (Being payment made to Preference Shareholders and Equity Shareholders)	Dr. Dr.	22,000 32,000	54,000
8	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve Account to the extent of face value of preference shares redeemed and equity Shares bought back) (20,000 + 16,000)	Dr.	36,000	36,000

Question 16

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

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	<u>1,000</u>		
	<u>26,900</u>		<u>26,900</u>

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

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

(May 2020)

Answer

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

(₹ in lakhs)

	Particulars			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy-back)	Dr.	2,500	2,350 150
2	10% Redeemable Preference Share Capital A/c	Dr.	2,500	
	Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr.	250	2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr.	550 250	800
6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)		2,750 1,600	4,350

	Particulars			
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)		3,300	3,300

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

(₹ Lakhs)

	Particulars	Note No	Amount
	EQUITY AND LIABILITIES		₹
(I)	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		<u>1,000</u>
	Total		<u>22,700</u>
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		<u>8,250</u>
			<u>22,700</u>

Notes to Accounts

		₹ in Lakhs		
1. Share Capital				
	720 lakh Equity Shares of ₹ 10 each Fully Paid up (80 lakh Equity Shares bought back)			7,200
2. Reserves and Surplus				
	General Reserve	6,000		
	Less: Adjustment for premium paid on buy back	(250)		
	Less: Transfer to CRR	<u>(3,300)</u>	2,450	

		₹ in Lakhs		
	Capital Redemption Reserve	1,000		
	Add: Transfer due to buy-back of shares from Gen. res.	<u>3,300</u>	4,300	
	Securities premium	800		
	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	<u>(550)</u>		
	Profit & Loss A/c	300	-	
	Add: Profit on sale of investment	<u>150</u>	<u>450</u>	7,200
3.	Long-term borrowings			
	Secured			
	9 % Debentures			5,000

Working Note:**Bank Account**

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

ESOP

Question 1

Bee Co. Ltd. has its share capital divided into Equity Shares of ₹10 each. On 1st April, 2017, the company offered 250 shares to each of its 520 employees at ₹60 per share, when the market price was ₹150 per shares. The options were to be exercised between 01-03-2018 to 31-03-2018. 410 employees accepted the offer and paid ₹60 per share purchased and the remaining options lapses.

The company closes its books on 31st March every year.

You are required to show Journal Entries (with narrations) as would appear in the books of Bee Co. Ltd. for the year ended 31st March, 2018 with regard to employees stock options.

(May 2019) (5 Marks)

Answer:

Journal Entries in the books of Bee Ltd.

		₹	₹
1.3.18	Bank A/c (1,02,500 x ₹60) Dr.	61,50,000	
to	Employee compensation expense A/c Dr.	92,25,000	
31.3.18	(1,02,500 x ₹90)		10,25,000
	To Equity share capital A/c (1,02,500 x ₹10)		1,43,50,000
	To Securities premium A/c (1,02,500 x ₹140)		
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)		
31.3.18	Profit and Loss A/c Dr.	92,25,000	
	To Employee compensation expense A/c		92,25,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)		

Question 2

Suvidhi Ltd. offered 50 shares to each of its 1500 employees on 1st April 2017 for ₹30. Option would be exercisable within a year it is vested. 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 is ₹50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹38 per share.

On 31st March, 2018, 1200 employees accepted the offer and paid ₹30 per share purchased. Nominal value of each share is ₹10.

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

(May 2018) (5 Marks)

Answer:

Journal Entries In the books of Suvidhi Ltd.

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

Working Note:

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

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

Fair value of ESOP which will be recognized as expenses in the year 2017-2018

= 60,000 shares x ₹8 = ₹4,80,000

Vesting period = 1 year

Expenses recognized in 2017-2018 = ₹4,80,000

Question 3

PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹18 on the grant date and the exercise price is ₹55 per share. The other information is given as under:

- (i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.
- (ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2015-2016 and 2016-2017.

(RTP May 2018)

Answer:

Calculation of ESOP cost to be amortized

	2015-2016	2016-2017
Fair value of options per share	₹18	₹18
No. of options expected to vest under the scheme	93,000 (930 x 100)	88,000 (880 x 100)
Fair value of options	₹16,74,000	₹15,84,000
Value of options recognized as expenses	(₹16,74,000/2) 8,37,000	(₹15,84,000 - ₹8,37,000) 7,47,000

Question 4

A company has its share capital divided into shares of ₹10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹50, when the market price was ₹140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(MTP March 2018) (5 Marks)

Answer:

Journal Entries in the books of company

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

Working Note:

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

Question 5

Explain the concept of graded vesting under an employee stock option plan.

(MTP April 2018) (5 Marks)

Answer:

Graded vesting under an employee stock option plan: In case the options/shares granted under an employee stock option plan do not vest on one date but have graded vesting schedule, total plan should be segregated into different groups, depending upon the vesting dates. Each of such groups would be having different vesting period and expected life and, therefore, each

vesting date should be considered as a separate option grant and evaluated and accounted for accordingly. For example, suppose an employee is granted 100 options which will vest @ 25 options per year at the end of the third, fourth, fifth and sixth years. In such a case, each lot of 25 options would be evaluated and accounted for separately.

Question 6

Lucky Ltd. grants 100 stock options to each of its 1,500 employees on 1-4-2014 for ₹40, 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 ₹70 each. These options will vest at the end of year 1 if the earning of Lucky Ltd. is 15%, 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% 8,000, unvested options lapsed on 31-3-2015. 6,000 unvested options lapsed on 31-3-2016 and finally 4,000 unvested options lapsed on 31-3-2017.

The earnings of Lucky Ltd. for the three financial years ended on 31st March, 2015; 2016 and 2017 are 14%, 10% and 8% respectively.

1,250 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.

You are required to give the necessary journal entries for the above and also prepare the statement showing compensation expense to be recognized at the end of each year.

(November 2018) (10 marks)

Answer:

Date	Particulars		₹	₹
31.3.2015	Employees compensation expense A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,500 employees at a discount of ₹30 each, amortised on straight line basis over vesting years (Refer W.N.))	Dr.	21,30,000	21,30,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	21,30,000	21,30,000
31.3.2016	Employees compensation expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	5,90,000	5,90,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	5,90,000	5,90,000
31.3.2017	Employees compensation Expenses A/c To ESOS outstanding A/c (Being compensation expense recognized in respect of the ESOP- Refer W.N.)	Dr.	12,40,000	12,40,000
	Profit and Loss A/c To Employees compensation expenses A/c (Being expenses transferred to profit and Loss A/c)	Dr.	12,40,000	12,40,000

Date	Particulars		₹	₹
2018-19	Bank A/c (1,250x100x40) ESOS outstanding A/c [(39,60,000 x 1,25,000/ 1,32,000] To Equity share capital (1250 x 100 x 10) To Securities premium A/c [(1250 x 100 x (70-10))] (Being 1,25,000 options exercised at an exercise price of ₹40 each)	Dr. Dr.	50,00,000 37,50,000	12,50,000 75,00,000
31.3.2019	ESOS outstanding A/c To General Reserve A/c (Being ESOS outstanding A/con lapse of 7,000 options at the end of exercise of option period transferred to General Reserve A/c)	Dr.	2,10,000	2,10,000

Working Note:**Statement showing compensation expense to be recognized at the end of:**

Particulars	Year 1 2014-15	Year 2 2015-16	Year 3 2016-17
Number of options expected to vest*	1,42,000 options	1,36,000 options	1,32,000 options
Total compensation expense accrued (70-40)	₹42,60,000	₹40,80,000	₹39,60,000
Compensation expense of the year	42,60,000x1/2 = ₹21,30,000	40,80,000 x 2/3 = ₹27,20,000	₹39,60,000
Compensation expense recognized previously	Nil	₹21,30,000	₹27,20,000
Compensation expenses to be recognized for the year	₹21.30,000	₹5.90,000	₹12,40,000

* It is assumed that each share is of ₹10 each and Lucky Ltd. expects all the options to be vested after deducting actual lapses during the year.

Question 7

JKS Ltd. has its share capital divided into equity shares of ₹10 each. On 1.1.2018 it granted 5,000 employee stock options at ₹30 per share, when the market price was ₹50 per share. The options were to be exercised between 15th March, 2018 and 31st March, 2018. The employees exercised their options for 3,600 shares only and the remaining options lapsed. The company closes its books on 31st March every year. You are required to prepare journal entries (with narration) as would appear in the books of the company up to 31st March, 2018.

(RTP November 2018)

Answer: Journal Entries in the books of JKS Ltd

			₹	₹
15.03.2018 to 31.3.18	Bank A/c (3,600 × ₹30) Employee compensation expense A/c (3,600 × ₹20) To Equity share capital A/c (3600 × ₹10)	Dr. Dr.	1,08,000 72,000	36,000

		₹	₹
	To Securities premium A/c (3600 × ₹40) (Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)		1,44,000
31.3.18	Profit and Loss A/c Dr.	72,000	
	To Employee compensation expenses A/c (Being transfer of employee compensation expenses transfer to Profit and Loss Account)		72,000

Working Notes:

1. No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st January 2018;
2. Market Price = ₹50 per share and stock option price = ₹30, Hence, the difference ₹50 - ₹30 = ₹20 per share is equivalent to employee cost or employee compensation expense and will be charged to P & L Account as such for the number of options exercised i.e. 3,600 shares.

Question 8

At the beginning of year 1, the enterprise grants 1,000 stock options to each member of its sales team, conditional upon the employees remaining in the employment of the enterprise for three years, and the team selling more than 50,000 units of a particular product over the three-year period. The fair value of the stock options is ₹15 per option at the date of grant.

During year 2, the enterprise increases the sales target to 1,00,000 units. By the end of year 3, the enterprise has sold 55,000 units, and the stock options do not vest.

Twelve members of the sales team have remained in service for the three-year period. You are required to examine and give comment in light of the relevant Guidance Note that whether the company should recognise the expenses on the base of options granted or not.

Also state will your answer differ if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years.

(RTP November 2018)

Answer:

Paragraph 19 of the Guidance Note on Share Based Payments requires, for a performance condition that is not a market condition, the enterprise to recognize the services received during the vesting period based on the best available estimate of the number of shares or stock options expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of shares or stock options expected to vest differs from previous estimates. On vesting date, the enterprise revises the estimate to equal the number of instruments that ultimately vested. However, paragraph 24 of the Guidance Note requires, irrespective of any modifications to the terms and conditions on which the instruments were granted, or a cancellation or settlement of that grant of instruments, the enterprise to recognize, as a minimum, the services received, measured at the grant date fair value of the instruments granted, unless those instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

Furthermore, paragraph 26(c) of the Guidance Note specifies that, if the enterprise modifies the vesting conditions in a manner that is not beneficial to the employee, the enterprise does not take the modified vesting conditions into account when applying the requirements for treatment of vesting conditions as specified in Guidance Note.

Therefore, because the modification to the performance condition made it less likely that the stock options will vest, which was not beneficial to the employee, the enterprise takes no account of the modified performance condition when recognizing the services received. Instead, it continues to recognize the services received over the three-year period based on the original vesting conditions. Hence, the enterprise ultimately recognizes cumulative remuneration expense of ₹1,80,000 over the three-year period (12 employees × 1,000 options × ₹15).

The same result would have occurred if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the enterprise would take no account of the modified service condition when recognizing the services received. Instead, it would recognize the services received from the twelve employees who remained in service over the original three-year vesting period.

Question 9

A company has its share capital divided into shares of ₹10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹50, when the market price was ₹140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. You are required to prepare the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

Answer: In the books of Company

Journal Entries

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

Working Note:

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

Question 10

A company has its share capital divided into shares of ₹10 each. On 1-1-20X1, it granted 7,500 employees stock options at ₹50, when the market price was ₹140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 7,200 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(RTP May, 2019)

Answer

**In the books of Company
Journal Entries**

Date	Particulars		Dr. ₹	Cr. ₹
1-3-X2 to 31-3-X2	Bank A/c (7,200 x 50) Employees compensation expenses A/c To Equity Share Capital A/c (7,200 x 10) To Securities Premium A/c (7,200 x ₹130) (Being allotment to employees 7,200 shares of ₹10 each at a premium of ₹130 at an exercise price of ₹50 each)	Dr. Dr.	3,60,000 6,48,000	72,000 9,36,000
31-3-X2	Profit and Loss account To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	Dr.	6,48,000	6,48,000

Working Notes:

1. Employee Compensation Expenses = Discount between Market Price and option price = ₹140 - ₹50 = ₹90 per share = ₹90 x 7,200 = ₹6,48,000 in total.
2. Securities Premium Account = ₹50 - ₹10 = ₹40 per share + ₹90 per share on account of discount of option price over market price = ₹130 per share = ₹130 x 7,200 = ₹9,36,000 in total.

Question 11

A company has its share capital divided into shares of ₹10 each. On 1-1-20X1, it granted 5,000 employees stock options at ₹50, when the market price was ₹140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(MTP-March 2019) (5 Marks)

Answer:

Journal Entries in the books of company

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

Date	Particulars		Dr. ₹	Cr. ₹
31-3-X2	Profit and Loss account To Employees compensation expenses A/c (Being transfer of employees compensation expenses)	Dr.	4,32,000	4,32,000

Working Note:

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

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

Question 12

The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2016
Number of employees covered	50
Number of options granted per employee	1,000
Fair value of option per share on grant date (₹)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹65 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/17, 47 on 31/03/18. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2018-19 was ₹68.

You are required to compute expenses to be recognised in each year in the books of the company.

(RTP November 2019)

Answer:

The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than ₹65. The company should recognise value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = ₹9

Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000

Fair value = 48,000 × ₹9 = ₹4,32,000

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = ₹4,32,000/3 = ₹1,44,000

Year 2017-18

Fair value of option per share = ₹9

Number of shares expected to vest under the scheme = $47 \times 1,000 = 47,000$ Fair value = $47,000 \times ₹9 = ₹4,23,000$

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= $(₹4,23,000/3) \times 2 = ₹2,82,000$

Value of option recognised as expense in 2016-17 = ₹1,44,000 Value of option recognised as expense in 2017-18

= ₹2,82,000 – ₹1,44,000 = ₹1,38,000

Year 2018-19

Fair value of option per share = ₹9

Number of shares actually vested under the scheme = $45 \times 1,000 = 45,000$ Fair value = $45,000 \times ₹9 = ₹4,05,000$

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 = ₹4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = ₹2,82,000

Value of option recognised as expense in 2018-19 = ₹4,05,000 – ₹2,82,000 = ₹1,23,000

Question 13

On 1st April, 2018, 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, 2019, 400 employees accepted the offer and paid ₹50 per share purchased. Nominal value of each shares is ₹10.

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

[MTP October, 2019, 4 Marks]

Answer

Fair value of an option = ₹56 - ₹50 = ₹6

Number of shares issued = 400 employees $\times$ 100 shares/employee = 40,000 shares

Fair value of ESOP = 40,000 shares $\times$ ₹6 = ₹2,40,000

Vesting period = 1 month

Expenses recognized in 2018-19 = ₹2,40,000

Date	Particulars		₹	₹
31.03.2019	Bank (40,000 shares $\times$ ₹50) Dr.		20,00,000	
	Employees compensation expense A/c Dr.		2,40,000	
	To Share Capital			4,00,000
	(40,000 shares $\times$ Rs.10)			
	To Securities Premium			18,40,000
	(40,000 shares $\times$ ₹46)			
	(Being option accepted by 400 employees 8i payment made@ ₹56share)			

Date	Particulars	₹	₹
	Profit & Loss A/c Dr. To Employees compensation expense A/c (Being Employees compensation expense transferred to Profit & Loss A/c)	2,40,000	2,40,000

Question 14

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

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

(May 2020)

Answer

Fair value of an option = ₹ 28

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

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

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

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

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

Journal Entry

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

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