PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2021 EXAMINATION

A. Applicable for May, 2021 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

(I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;

(II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

II. Sale of Securities held in Held to Maturity (HTM) Category

Accounting treatment

Investments by Primary (Urban) Co-operative Banks (UCBs) if securities acquired by banks with the intention to hold them up to maturity will be classified under HTM category. As per Circular no. RBI/2018-19/205 DCBR.BPD. (PCB) Cir.No.10/16.20.000/2018-19 dated 10th June, 2019, it is reiterated that UCBs are not expected to resort to sale of securities held in HTM category. However, if due to liquidity stress, UCBs are required to sell securities from HTM portfolio, they may do so with the permission of their Board of Directors and rationale for such sale may be clearly recorded. Profit on sale of investments from HTM category shall first be taken to the Profit and Loss account and, thereafter, the amount of such profit shall be appropriated to 'Capital Reserve' from the net profit for the year after statutory appropriations. Loss on sale shall be recognized in the Profit and Loss account in the year of sale.

Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks

As per Circular no. RBI/2018-19/204 DBR.No.BP.BC.46/21.04.141/2018-19 dated 10th June, 2019 (referring to RBI circular DBR No BP.BC.6/21.04.141/2015-16 dated

July 1, 2015 advising banks that if the value of sales and transfer of securities to / from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year) banks should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. Apart from transactions that are already exempted from inclusion in the 5 per cent cap, it has been decided that repurchase of State Development Loans (SDLs) by the concerned state government shall also be exempted.

III. Merging three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called Investment and Credit Company (NBFC-ICC)

As per circular RBI/2018-19/130 DNBR (PD) CC.No.097/03.10.001/2018-19 dated February 22, 2019, in order to provide NBFCs with greater operational flexibility, it has been decided that harmonisation of different categories of NBFCs into fewer ones shall be carried out based on the principle of regulation by activity rather than regulation by entity. Accordingly, it has been decided to merge the three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC). Investment and Credit Company (NBFC-ICC) means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the RBI in any of its Master Directions. (Circular DBR.BP.BC.No.25/21.06.001/2018-19 dated 22 February 2019)

Differential regulations relating to bank's exposure to the three categories of NBFCs viz., AFCs, LCs and ICs stand harmonized vide Bank's circular DBR.BP.BC.No.25/21.06.001/2018-19 dated February 22, 2019. Further, a deposit taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund. All related Master Directions (Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, Standalone Primary Dealers (Reserve Bank) Directions, 2016 and Residuary Non-Banking Companies (Reserve Bank) Directions, 2016) have also been updated accordingly.

NOTE: October, 2020 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for May, 2021 Examination which incorporates the above amendments. The students who have editions prior to October, 2020 may refer above amendments.

B. <u>Not applicable for May, 2021 examination</u>

Non-Applicability of Ind AS for May, 2021 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2021 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Conversion of partnership firm into Company and Sale to a Company

1. Om, Sai and Radhe share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2020 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Land and Building	1,40,000
Om	70,000	Machinery	50,000
Sai	80,000	Motor Car	28,000
Radhe	10,000	Furniture	12,000
General Reserve	22,000	Investments	18,000
Radhe's Loan	33,000	Stock	18,000
Mrs. Om's loan	15,000	Bills receivable	20,000
Creditors	96,000	Loose tools	7,000
Bills Payable	14,000	Debtors	38,000
Bank overdraft	60,000	Cash	1,000
		Radhe'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:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) 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.

(iv) 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 Om for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Om 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. Radhe's loan was transferred to his capital account.

(v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare Realization account, Partners' capital accounts, Cash account, ABC Ltd. account and Shares in ABC Ltd. account in the books of the partnership firm.

Dissolution of partnership firm

2. (a) 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, 2020 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
Creditors	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".

Limited Liability Partnerships

(b) Write short note on Designated Partners in a Limited Liability Partnership and what are their liabilities.

Accounting for ESOPs

3. (a) Define the following terms:

(i) Vesting Period;

(ii) Grant Date.

(b) PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2018, 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. Number of employees expected to satisfy service conditions are 930 in the 1st year and 850 in the 2nd year. However, 880 employees actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2018-2019 and 2019-2020.

Buy Back of Securities

4. M/s. Vriddhi Infra Ltd. (a non-listed company) provide the following information as on 31.3.2020:

	(₹)
Land and Building	21,50,000
Plant & Machinery	15,00,000
Non- current Investment	2,00,000
Trade Receivables	5,50,000
Inventories	1,80,000
Cash and Cash Equivalents	40,000
Share capital:1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000
Securities Premium	3,00,000

General Reserve	2,50,000
Profit & Loss Account (Surplus)	1,50,000
10% Debentures (Secured by floating charge on all assets)	20,00,000
Unsecured Loans	8,00,000
Tarde Payables	1,20,000

On 21st April, 2020 the Company announced the buy back of 15,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

On 25th April, 2020, the company achieved the target of buy back. On 1st May, 2020 the company issued one fully paid up share of ₹ 10 each by way of bonus for every eight equity shares held by the equity shareholders.

You are required to pass necessary Journal Entries for the above transactions.

Equity Shares with Differential Rights

5. (a) What do you mean by equity shares with differential rights. Explain in brief

   (b) 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.

Amalgamation of Companies

6. Mohan Ltd. gives you the following information as on 31st March, 2020:

	₹
Share capital:	
Equity shares of ₹ 10 each	3,00,000
6,000, 9% cumulative preference shares of ₹ 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of ₹ 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of ₹ 4,00,000 divided into 40,000 Equity Shares of ₹ 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at ₹ 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of ₹ 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

Internal Reconstruction of a Company

7. Recover Ltd decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows-

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	3,50,000
	B	Reserves and surplus	2	(70,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	55,000

3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		90,000
				5,05,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant Equipment	4	3,35,000
	B	Intangible assets	5	50,000
	C	Non-current investments	6	40,000
2		**Current assets**		
	A	Inventories		30,000
	B	Trade receivables		50,000
				5,05,000

Notes to accounts:

			₹
1	**Share Capital**		
	Equity share capital:		
	20,000 Equity Shares of ₹ 10 each		2,00,000
	Preference share capital:		
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)		1,50,000
			3,50,000
2	**Reserves and surplus**		
	Securities premium		10,000
	Profit and loss account (debit balance)		(80,000)
			(70,000)
3	**Long-term borrowings**		
	Secured		
	9% Debentures (secured on the freehold property		50,000
	Accrued interest on 9% debentures		5,000
			55,000
4	**Property, Plant and Equipment**		
	Freehold property		1,20,000
	Leasehold property		85,000
	Plant and machinery		1,30,000
			3,35,000

5	**Intangible assets**		
	Goodwill		50,000
			50,000
6	**Non-current investments**		
	Non-Trade investments at cost		40,000
			40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i. The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.

ii. One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.

iii. The balance on Securities Premium Account was utilized and was transferred to capital reduction account.

iv. The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.

v. Plant and Machinery was written down to ₹ 1,00,000.

vi. Non-trade Investments were sold for ₹ 32,000.

vii. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.

viii. A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

Liquidation of Company

8. From the following Trial Balance of All Rounder Ltd., on 1st January, 2021, prepare liquidator's final statement of account:

Particulars	Debit (₹)	Credit (₹)
9% Preference Share Capital (2,500 Preference Shares at ₹100 each, fully paid)		2,50,000
Equity Share Capital: 4,000 Equity Shares at ₹100 each, fully paid.		4,00,000
4,000 Equity Shares at ₹100 each, ₹50 paid up		2,00,000

Plant	6,00,000	
Stock-in-Trade	7,20,000	
Sundry Debtors	1,70,000	
Sundry Creditors		4,42,000
Bank Balance	2,40,000	
Preliminary Expenses	12,000	
6% Mortgage Loan		4,60,000
Outstanding Liabilities for Expenses	-	50,000
Profit and Loss A/c (Trading Loss for the previous accounting year)	60,000	-
Total	18,02,000	18,02,000

Following points should be kept in mind:

1. On 21st January, 2021, the Liquidator sold plant for ₹5,90,000 and stock-in-trade at 10% less than the Book Value. He realized 80% of Sundry Debtors, and incurred cost of collection of ₹3,700 (remaining Debtors are to be treated as bad).
2. The Loan Mortgage was discharged as on 31st January, 2021, along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding Expenses paid at 20% less.
3. Preference Share Dividend is due for one year and paid with final payment.
4. Liquidation Expenses incurred are ₹3,600, and Liquidator's Remuneration is settled at 4% on disbursement to shareholders (preference and equity) excluding preference dividend, subject to minimum of ₹20,000. Liquidator's Remuneration to be rounded off to the multiple of ₹10.

Banking Companies

9. (a) Forward Bank Ltd furnishes the following information as on 31st March, 2020.

	Amount in ₹
Bills Discounted	82,23,000
Rebate on bills discounted as on 1st April, 2019	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, 2020	14%
30,00,000	25th June, 2020	12%

16,92,000	5th July, 2020	16%
24,36,000	15th July, 2020	16%

(i) Calculate the rebate on bills discounted as on 31st March, 2020. Take 365 days in year.

(ii) Pass necessary Journal Entries.

(b) State with reason whether the following cash credit account is NPA or not:

	₹
Sanctioned limit	50,00,000
Drawing power	44,00,000
Amount outstanding continuously 01-01-20 to 31-03-20	40,00,000
Total interest debited for the above period	3,20,000
Total credits for the above period	1,80,000

NBFCs

10. (a) Calculate 'Owned Fund' of a NBFC based on the following facts:

Paid up share capital: ₹ 400 lakhs

Free reserves: ₹ 200 lakhs

Securities Premium: ₹ 50 lakhs

Capital Reserves (surplus arising due to sale of assets): ₹100 lakhs

Compulsory convertible preference shares (CCPS): ₹ 50 lakhs

Revaluation Reserve: ₹ 100 lakhs

(b) Omega 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, 2020:

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	100.00	4,000
Washing Machines	For 24 Months	20.00	400
Refrigerators	For 30 Months	10.00	250
Air Conditioners	For 45 Months	5.00	120
Mobile Phones	For 60 Months	1.00	10

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

Consolidated Financial Statements

11. A Ltd. acquired 70% equity shares of B Ltd. @ ₹20 per share (Face value - ₹10) on 31st March, 2021 at a cost of ₹ 140 lakhs. Calculate the amount of share of A Ltd. and minority interest in the net assets of B Ltd. on this date. Also compute goodwill/capital reserve for A Ltd. on acquisition of shares of B Ltd. from the following information available from the balance sheet of B Ltd. as on 31st March, 2021:

	₹ in lakhs
Property, plant and equipment	360
Investments	90
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

AS 4 Contingencies and Events occurring after the Balance Sheet Date

12. (a) A case is going on between ABC Ltd. and Tax department on claiming the exemption for certain items, for the year 2019-2020. The court has issued the order on 15th April and rejected the claim of the company. Accordingly, company is liable to pay the additional tax. The financial statements were approved on 31st May, 2020. Shall company account for such tax in the year 2019-2020 or shall it account for in the year 2020-2021?

AS 5 Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies

(b) XYZ Ltd. is in the process of finalizing its account for the year ended 31st March, 2020. The company seeks your advice on the following:

The company's tax assessment for assessment year 2017-18 has been completed on 14th February, 2020 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.

AS 7 Construction Contracts

13. (a) Sky Limited belongs to Heavy Engineering Contractors specializing in construction of Flyovers. The company just entered into a contract with a local municipal corporation for building a flyover. No activity has started on this contract.

As per the terms of the contract, Sky Limited will receive an additional ₹ 50 lakhs if the construction of the flyover were to be finished within a period of two years from the commencement of the contract. The Accountant of the entity wants to recognize this revenue since in the past the company has been able to meet similar targets very easily. Give your opinion on this treatment.

(b) ABC Ltd., a construction contractor, undertakes the construction of commercial complex for XYZ Ltd. ABC 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 ABC Ltd., should treat it as a single contract or three separate contracts.

AS 9 Revenue Recognition

14. (a) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year ended 31st March,2020:

(i) On 31st December, 2019 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2020.

(ii) On 10th January, 2020, Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April. 2020.

(iii) On 21st March, 2020 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2020.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2019 -20 in above cases in the context of AS 9.

AS 14 Accounting for Amalgamations

(b) Astha Ltd. is absorbed by Nistha 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% through 8% debentures issued at a premium of 25% of face value and the payment of ₹15 per share in cash and allotment of three 11% preference shares of ₹ 10 each and four equity shares of ₹10 each at a premium of 20% fully paid for every five shares in Astha Ltd.

The number of shares of the vendor company are 1,50,000 of ₹ 10 each fully paid. Calculate purchase consideration as per AS 14.

AS 17 Segment Reporting

15. (a) 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?

AS 18 Related Party Transactions

(b) R Ltd. has 60% voting right in S Ltd. S Ltd. has 15% voting right in T Ltd. R Ltd. directly enjoys voting right of 10% in T Ltd. T Ltd. is a listed company and regularly supplies goods to R Ltd. The management of T Ltd. has not disclosed its relationship with R Ltd. You are required to assess the situation from the view point of AS 18 on Related Party Disclosures.

AS 19 Leases

16. Sooraj 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 Sooraj 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)

AS 20 Earnings Per Share

17. 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.

AS 22 Accounting for Taxes on Income

18. (a) The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019:

(i) Depreciation as per books ₹ 2,80,000

Depreciation for tax purpose ₹ 1,90,000

The above depreciation does not include depreciation on new additions.

(ii) A new machinery purchased on 1.4.18 costing ₹ 1,20,000 on which 100% depreciation is allowed in the 1st year for tax purpose whereas Straight-line method is considered appropriate for accounting purpose with a life estimation of 4 years.

(iii) The company has made a profit of ₹ 6,40,000 before depreciation and taxes.

(iv) Corporate tax rate of 40%.

Prepare relevant extract of statement of Profit and Loss for the year ending 31-3-2019 and also show the effect of above items on deferred tax liability/asset as per AS 22.

(b) What are the disclosure requirements for deferred tax assets and deferred tax liabilities in the balance sheet as per AS 22?

AS 24 Discontinuing Operations

19. (a) Arzoo 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 to the commercial vehicles 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 has planned that 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 plus transfer of employees in a phased manner. These plans have not approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. 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.

AS 26 Intangible Assets

(b) Naresh Ltd. had the following transactions during the financial year 2019-2020:

(i) Naresh Ltd. acquired running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2019. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, its goodwill exists.

(ii) Naresh Ltd. had taken a franchise on July 2019 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2019-2020.

(iii) On 20th August, 2019, Naresh Ltd, incurred costs of ₹ 2,40,000 to register the patent for its product. Naresh Ltd. expects the patent's economic life to be 8 years.

Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business to be amortized over 5 years (SLM) as per AS 14.

Prepare a schedule showing the intangible assets section in Naresh Ltd. Balance Sheet at 31st March, 2020.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. (a) 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.

(b) Explain whether provision is required in the following situations in line with AS 29:

(i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation;

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.

SUGGESTED ANSWERS

1. In the books of Partnership Firm

Realization Account

Particulars	₹	₹	Particulars	₹	₹
To Land and Building		1,40,000	By Trade creditors		96,000
To Machinery		50,000	By Bills Payable		14,000
To Motor Car		28,000	By Bank overdraft		60,000
To Furniture		12,000	By Mrs. Om's loan		15,000
To Investments		18,000	By ABC Ltd. (Purchase price)		1,95,500
To Loose tools		7,000	By Om's Capital A/c (Investments taken over)		13,000
To Stock		18,000	By Cash A/c:		
To Bill receivable		20,000	Debtors	20,000	
To Debtors		38,000	Motor Car	24,000	
			Furniture	4,000	
To Om's Capital A/c (Mrs. Om'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 transferred to:					
Om's Capital A/c	1,000				
Sai's Capital A/c	667				
Radhe's Capital A/c	333	2,000			
		4,42,500			4,42,500

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	*Om* ₹	*Sai* ₹	*Radhe* ₹	*Particulars*	*Om* ₹	*Sai* ₹	*Radhe* ₹
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 Radhe's Loan A/c	-	-	33,000
To Radhe's Current A/c	-	-	56,000	By General reserve	11,000	7,333	3,667
To shares in ABC Ltd.	60,000	40,000	20,000	By Realization A/c	1,000	667	333
To Cash A/c	18,000	44,000	-	By Realization A/c (Mrs. Om's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Om's Capital A/c	60,000
		By Sai's Capital A/c	40,000
		By Radhe'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 Om's Capital A/c	18,000
To Realization A/c (realization of assets)	49,000	By Sai's Capital A/c	44,000
To Radhe's Capital A/c	31,000		-
	1,56,500		1,56,500

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

		Creditors	*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					
Less: Payment made to creditors	(62,954)	(62,954)				
Balance due	Nil	3046				
2nd instalment realised	69,301					
Less: Z's remuneration of 1% on assets realized (69,301 x 1%)	(693)					
	68,608					
Less: Payment made to creditors	(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)
	43,420					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					
Amount of 3rd instalment	40,000			40,222	32,179	32,179
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					

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					
Less: Paid to X, Y and Z in 5:4:4	(25,200)			(9,692)	(7,754)	(7,754)
	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.

(b) **"Designated partner"** means any partner designated as such pursuant to section 7 of the Limited Liability Partnerships (LLPs) Act, 2008. As per section 7 of the LLP Act, every limited Liability Partnership shall have at least 2 designated Partners who are individuals and at least one of them shall be a resident in India.

Provided that in case of 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 2 individuals who are partners of such limited liability Partnership or Nominees of such Bodies corporate shall act as designated partners.

"Liabilities of designated partners"

As per Section 8 of LLP Act, unless expressly provided otherwise in this Act, a designated partner shall be-

(a) responsible for the doing of all acts, matters and things as are required to be done by the limited liability partnership in respect of compliance of the provisions of this Act including filing of any document, return, statement and the like report pursuant to the provisions of this Act and as may be specified in the limited liability partnership agreement; and;

(b) liable to all penalties imposed on the limited liability partnership for any contravention of those provisions.

3. **(a)** (i) ***Vesting Period:*** It is the time period between grant date and the date on which all the specified vesting conditions of an employee share-based payment plan is to be satisfied.

(ii) ***Grant Date:*** It is the date at which the enterprise and its employees agree to the terms of an employee share-based payment plan. At grant date, the enterprise confers on the employees the right to cash or shares of the enterprise, provided the specified vesting conditions, if any, are met. If that agreement is subject to an approval process, (for example, by shareholders), grant date is the date when that approval is obtained.

(b) Calculation of ESOP cost to be amortized

	2018-2019	*2019-2020*
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	8,37,000 (₹ 16,74,000 / 2)	7,47,000 (₹ 15,84,000 – ₹ 8,37,000)

4. **In the books of Vriddhi Infra Ltd.**

Journal Entries

Date	*Particulars*		*Dr.*	*Cr.*
2020			*₹*	*₹*
April 21	Bank A/c	Dr.	2,50,000	
	To Investment A/c			2,00,000
	To Profit on sale of investment			50,000
	(Being investment sold on profit)			
April 25	Equity share capital A/c	Dr.	1,50,000	
	Securities premium A/c	Dr.	75,000	
	To Equity shares buy back A/c			2,25,000
	(Being the amount due to equity shareholders on buy back)			
	Equity shares buy back A/c	Dr.	2,25,000	
	To Bank A/c			2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares)			
	General Reserve A/c OR P&L A/c	Dr.	1,50,000	
	To Capital redemption reserve A/c			1,50,000
	(Being amount equal to nominal value of buy back shares transferred from free reserves to capital redemption reserve account as per the law)			
May 1	Capital redemption reserve A/c	Dr.	1,06,250	

	To Bonus shares A/c (W.N.1) (Being the utilization of capital redemption reserve to issue bonus shares)		1,06,250
	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of one bonus equity share for every ten equity shares held)	1,06,250	1,06,250

Working Note:

Amount of bonus shares = $\left[(1,00,000 - 15,000) \times \frac{1}{8}\right] \times 10$

= ₹ 1,06,250

5. **(a)** Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise.

(b) 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

E = 2/3X30/100 = 3/15

F = 2/3X30/100 = 3/15

G = 2/3X20/100 = 2/15

H = 2/3X20/100 = 2/15

S = 1/3X40/100 = 2/15

T = 1/3X30/100 = 1/10

U = 1/3X10/100 = 1/30

V = 1/3X20/100 = 1/15

6. **In the books of Mohan Ltd.**

(i) **Realisation Account**

	₹		₹
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000

To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference share holders A/c (W.N.2)	5,400		
	5,60,400		5,60,400

(ii) **Equity shareholders' Account**

	₹		₹
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		3,00,000

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

(i) **Bank Account**

	₹		₹
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		1,09,600

(ii) **Balance Sheet as at 31st March, 2020**

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		

Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

		₹
1.	Share Capital	
	Authorised share capital	
	40,000 equity shares of ₹ 10 each	4,00,000
	Issued and Subscribed	
	40,000 shares of ₹ 10 each fully paid up	4,00,000
	(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2.	**Long Term Borrowings**	
	10% Debentures	2,00,000

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
6,000 equity shares @ ₹ 10	60,000
For arrears of dividend: (6,000 x ₹ 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ ₹ 10	1,00,000
Total purchase consideration	1,65,400

2. **Preference shareholders' Account in books of Mohan Ltd.**

	₹		₹
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

3. **Calculation of number of Equity shares issued to public**

		Number of shares
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

7. **In the books of Recover Ltd**

Journal entries

Particulars		Dr. ₹	Cr. ₹
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Capital reduction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Capital reduction A/c (₹ 9)			1,80,000
(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to capital reduction ac as a part of the internal reconstruction scheme.)			

Capital reduction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
Securities Premium A/c	Dr.	10,000	
To Capital reduction A/c			10,000
(Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)			
9% Debentures A/c	Dr.	50,000	
Accrued interest on debentures A/c	Dr	5,000	
Bank A/c	Dr.	20,000	
Capital reduction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			
Capital reduction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Capital reduction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000

(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Capital reduction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Capital reduction A/c	Dr.	80,000	
To Profit and loss A/c			80,000
(Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).			
Capital reduction A/c	Dr.	30,800	
To Capital reserve A/c			30,800
(The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)			

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		**Non-current liabilities**		
	A	Long-term borrowings		-
3		**Current liabilities**		
	A	Trade Payables		80,000
	B	Bank Overdraft		90,000
				3,06,300
		Total		
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	3	1,85,000

2		**Current assets**		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		**3,06,300**

Notes to accounts:

1	**Share Capital**	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
		1,05,500
2	**Reserves and surplus**	
	Capital reserve	30,800
3	**Property, Plant and Equipment**	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	**Cash and cash equivalents**	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

8. Liquidator's Final Statement of Account

Receipts		₹	Payments		₹
Sundry Assets realized:			Liquidator's Remuneration (Working note)		25,020
Bank Balance		2,40,000	Liquidation Expenses (given)		3,600
Plant		5,90,000	Secured Creditors:		
			6% Mortgage		
Debtors	1,36,000		Loan	4,60,000	
(1,70,000 X 80%)					
Less: Realization Expenses	(3,700)		Add: Interest	13,800	4,73,800
		1,32,300	(4,60,000 × 6% × 6/12)		
Stock		6,48,000	Unsecured Creditors:		
(7,20,000× 90%)			Creditors	4,19,900	

		(4,42,000 X 95%)		
		Outstanding Expenses	40,000	4,59,900
		Preference Shareholders:		
		Capital	2,50,000	
		Dividend (for 1 year @ 9%)	22,500	2,72,500
		Equity Shareholders: (Working note)		
		Fully Paid Shares (4,000×71.935)	2,87,740	
		Partly Paid Shares (4,000×21.935)	87,740	3,75,480
	16,10,300			16,10,300

Working Note:

Computation of Liquidations' Remuneration and Payment to Equity Shareholders

		₹
(a)	Total of Receipts (from above account)	16,10,300
(b)	Total Payments before Final Payment to Members (excluding Preference Capital) and Liquidator's Remuneration (3,600 + 4,73,800 + 4,59,900 + Pref Dividend 22,500)	(9,59,800)
(c)	Balance left for Liquidator's Remuneration, Pref. Capital and Equity Shareholders	6,50,500
(d)	Liquidator's Remuneration (6,50,500 × 4/104 = ₹25,020 or ₹20,000 whichever is higher)	(25,020)
(e)	Refund of Capital to Preference Shareholders	(2,50,000)
(f)	Balance money before Notional Call	3,75,480
(g)	Notional Call on 4,000 Partly Paid Shares at ₹50 each (to make all Shares ₹100 paid up)	2,00,000
(h)	Surplus Cash balance after Notional Call	5,75,480
(i)	Number of Equity Shares deemed fully paid (4,000 + 4,000)	8,000
(j)	Hence, Refund on every ₹100 paid up Share (**h ÷ i) =** ₹5,75,480 ÷ 8,000	₹71.935
(k)	Loss per ₹100 paid up Equity Share = Paid Up Value ₹100 – Refund as above ₹71.935	28.065
(l)	Refund per ₹50 Partly Paid-Up Equity Share = Paid Up Value ₹50 – Loss as above ₹28.065	21.935

9. **(a)** 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 31-03-2020	Discount %	Discount Amount ₹
10,95,000	15-06-2020	(30+31 + 15) = 76	14%	31,920
30,00,000	25-06-2020	(30 + 31 + 25) = 86	12%	84,822
16,92,000	05-07-2020	(30 + 31 + 30 + 5) = 96	16%	71,203
24,36,000	15-07-2020	(30 + 31 + 30 + 15) = 106	16%	1,13,191
		Rebate on bills discounted as on 31.3.2020		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 1.4.2019 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 1.4.2020 from discount on Bills Account)			
Discount on Bills A/c	Dr.	4,65,814	
To Profit and Loss A/c			4,65,814
(Being the amount of discount on Bills transferred to Profit and Loss Account)			

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 1.4.19	1,32,960
Add: Discount received during the year ended 31-3-2020	6,33,990
	7,66,950
Less: Rebate on bills discounted as on 31.3.2020	(3,01,136)
	4,65,814

(b)

	₹
Sanctioned limit	50,00,000
Drawing power	44,00,000
Amount outstanding continuously from 1.01.2020 to 31.03.2020	40,00,000
Total interest debited	3,20,000
Total credits	1,80,000
Is credit in the account is sufficient to cover the interest debited during the period or	No
Amount is 'overdue' for a continuous period of 90 days.	Yes

The cash credit account is NPA because the credit in the account is not sufficient to cover the interest debited during the period and the amount is 'overdue' for a continuous period of 90 days.

10. (a) Owned fund calculation:

Paid up share capital: ₹ 400 lakhs

Free reserves: ₹ 200 lakhs

Compulsory convertible preference shares (CCPS): ₹ 50 lakhs

Securities Premium: ₹ 50 lakhs

Capital reserve: ₹ 100 lakhs

Total Owned fund: ₹ 800 lakhs ie. ₹ (400+200+50+50+100) lakhs

(b) 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 400)	40
(c)	Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value (40% x 250)	100
(d)	Where hire charges or lease rentals are overdue for more	70 percent of the net book value (70% x 120)	84

	than 36 months but upto 48 months		
(e)	Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 10)	10
		Total	234

11. Net assets of B Ltd. as on 31st March, 2021

	₹ *in lakhs*	₹ *in lakhs*
Property, plant and equipment		360
Investments		90
Current Assets		140
Loans and Advances		30
Total Assets		620
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280)
Equity / Net Worth		340
Share of Minority Interest in net assets (30% of 340)		102
A Ltd.'s share in net assets (70% of 340)		238
A Ltd.'s cost of acquisition of shares of B Ltd.		
(₹140 lakhs)		(140)
Capital reserve		98

12. (a) To decide whether, the event is adjusting or not adjusting two conditions need to be satisfied,

(a) There has to be evidence

(b) The event must have been related to period ending on reporting date.

Here both the conditions are satisfied. Court order is a conclusive evidence which has been received before approval of the financial statements since the liability is related to earlier year. The event will be considered as an adjusting event and accordingly the amount will be adjusted in accounts of 2019-2020.

(b) Since the company is not appealing against the addition of ₹ 1.70 crore (₹ 5.40 crore less ₹ 3.70 crore), therefore, the same should be provided/ expensed off in its accounts for the year ended on 31st March, 2020. However, the amount paid under protest can be kept under the heading 'Long-term Loans & Advances / Short-term Loans and Advances' as the case may be alongwith disclosure as contingent liability of ₹ 3.70 crore.

13. (a) According to AS 7 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when both the conditions are met:

(i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and

(ii) the amount of the incentive payment can be measured reliably.

In the given problem, the contract has not even begun and hence the contractor (Sky Limited) should not recognize any revenue of this contract. Therefore, the accountant's contention for recognizing ₹ 50 lakhs as revenue is not correct.

(b) 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.

ABC Ltd. has submitted separate proposals for each of the 3 units of commercial complex. Also the revenue and completion time has been laid down for each unit separately which implies separate negotiation for them.

Therefore, ABC 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.

14. (a) (i) Shoes sent to Mohan Shoes (consignee) for consignment sale

In case goods are sent for consignment sale, revenue is recognized when significant risks of ownership have passed from seller to the buyer.

In the given case, Mohan Shoes is the consignee i.e. an agent of Tonk Tanners and not the buyer. Therefore, the risk and reward is considered to vest with Tonk Tanners only till the time the sale is made to the third party by Mohan Shoes; although the goods are held by Mohan Shoes. Hence, in the year 2019-2020, the sale will be recognized for the amount of goods sold by Mohan Shoes to the third party i.e. for ₹ 3,20,000 x 75% = ₹ 2,40,000.

(ii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date

For such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue and should not be recognised as revenue in the year 2019-2020. Hence, sale of ₹ 4,50,000 to Shani Shoes should not be recognized as revenue.

(iii) Delivery is delayed at buyer's request

On 21st March, 2020, if Shoe Shine takes title and accepts billing for the goods then it is implied that the sale is complete and all the risk and rewards of ownership has been transferred to the buyer. In case no significant uncertainty exists regarding the amount of consideration for sale, revenue shall be recognized in the year 2019-2020 irrespective of the fact that the delivery is delayed on the request of Shoe Shine.

(b) As per AS 14 'Accounting for Amalgamations', the term 'consideration' has been defined as 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.

The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

	₹
Cash payment ₹15 x 1,50,000	22,50,000
11% Preference Shares of ₹ 10 each [(1,50,000 x 3/5) x ₹ 10]	9,00,000
Equity shares of ₹ 10 each @ 20% premium [(1,50,000 x 4/5) x ₹ 12]	14,40,000
Total Purchase consideration	45,90,000

15. (a) 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 inter-segment 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.

(b) AS 18 'Related Party Disclosures', defines related party as one that has at any time during the reporting period, the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Definition for Control

Here, control is defined as ownership directly or indirectly of more than one-half of the voting power of an enterprise; and Significant Influence is defined as participation in the financial and/or operating policy decisions of an enterprise but not control of those policies.

Nature of Relationship

R Ltd. has direct economic interest in T Ltd. to the extent of 10%, and through S Ltd. in which it is the majority shareholders, it has further control of 9% in T Ltd. (60% of S Ltd.'s 15%). These two taken together (10% + 9%) make the total control of 19%.

Conclusion

In the present case, control of R Ltd. in T Ltd. directly and through S Ltd., is only 19%. Significant influence may also not be exercised as an investing party (R Ltd.) holds, directly or indirectly through intermediaries only 19% of the voting power of the T Ltd. Accordingly, R Ltd. and T Ltd. are not related parties. Hence related party disclosure, as per AS 18, is not required.

16. 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

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.*

17. The following dates should be considered for consideration of weights for the purpose of calculation of weighted average number of shares in the given situations:

(i) Date of Cash receivable

(ii) Date of conversion

(iii) Date on which settlement becomes effective

(iv) When the services are rendered

(v) Date when interest ceases to accrue

(vi) Date on which the acquisition is recognised.

18. (a) Statement of Profit and Loss for the year ended 31st March, 2019 (Extract)

		₹
Profit before depreciation and taxes		6,40,000
Less: Depreciation for accounting purposes (2,80,000+30,000)		(3,10,000)
Profit before taxes (A)		3,30,000
Less: Tax expense (B)		
Current tax (W.N.1) (3,30,000 x 40%)	1,32,000	
Deferred tax (W.N.2)	NIL	(1,32,000)
Profit after tax (A-B)		1,98,000

Working Notes:

1. Computation of taxable income

	Amount (₹)
Profit before depreciation and tax	6,40,000
Less: Depreciation for tax purpose (1,90,000 + 1,20,000)	(3,10,000)
Taxable income	3,30,000
Tax on taxable income @ 40%	1,32,000

2. Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	*Transactions*	*Analysis*	*Nature of difference*	*Effect*	*Amount (₹)*
(i)	Difference in depreciation	Generally, written down value method of depreciation is	Responding timing difference	Reversal of DTL	(2,80,000 - 1,90,000) x 40% = (36,000)

		adopted under IT Act which leads to higher depreciation in earlier years of useful life of the asset in comparison to later years.			
(ii)	Depreciation on new machinery	Due to allowance of full amount as expenditure under IT Act, tax payable in the earlier years is less.	Timing difference	Creation of DTL	(1,20,000 – 30,000) x 40% = 36,000
	Net impact				NIL

(b) The break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts. 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 nature of the evidence supporting the recognition of deferred tax assets should be disclosed, if an enterprise has unabsorbed depreciation or carry forward of losses under tax laws.

19. (a) Mere gradual phasing out is not considered as discontinuing operation as defined under AS 24, 'Discontinuing Operations'.

Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

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

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

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

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

In view of the above, mere gradual phasing out in itself cannot be considered as discontinuing operation. The companies' strategic plan also has no final approval from the board through a resolution and there is no specific time bound activities like shifting of assets and employees. Moreover, the new segment i.e. commercial vehicle production line in a new factory has not started.

(b) **Naresh Ltd.**

Balance Sheet (Extract relating to intangible asset) as on 31st March 2020

	Note No.	₹
Assets		
(1) Non-current assets		
Intangible assets	1	8,11,200

Notes to Accounts (Extract)

		₹	₹
1.	Intangible assets		
	Goodwill (Refer to note 1)	4,51,200	
	Franchise (Refer to Note 2)	1,50,000	
	Patents (Refer to Note 3)	2,10,000	8,11,200

Working Notes:

		₹
(1)	Goodwill on acquisition of business	
	Cash paid for acquiring the business (purchase consideration)	10,80,000
	Less: Fair value of net assets acquired	(5,16,000)
	Goodwill	5,64,000
	Less: Amortisation as per AS 14 ie. over 5 years (as per SLM)	(1,12,800)
	Balance to be shown in the balance sheet	4,51,200
(2)	Franchise	1,80,000
	Less: Amortisation (over 6 years)	(30,000)
	Balance to be shown in the balance sheet	1,50,000
(3)	Patent	2,40,000
	Less: Amortisation (over 8 years as per SLM)	(30,000)
	Balance to be shown in the balance sheet	2,10,000

20. (a) 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.

(b) (i) There is a present obligation that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation – Provision is recognised. Disclosures are required for the provision.

(ii) There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources – No provision is recognised. Disclosures are required for the contingent liability.

(iii) There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote – No provision is recognised. No disclosure is required.