**(ALL BATCHES)**

**DATE: 01.10.2018** **MAXIMUM MARKS: 100** **TIMING: 3¼Hours**

**PAPER 5 :ADVANCE ACCOUNTING**

**Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.**
**Question No. 1 is compulsory.**
**Candidates are also required to answer any Four questions from the remaining Five Questions.**
**In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.**
**Wherever necessary, suitable assumptions may be made and disclosed by way of note.**

**Answer: 1**
**(a)**

| **(a)** | Amount of foreseeable loss | **(Rs. in lakhs)** |
|---|---|---|
| | Total cost of construction (500 + 105 + 495) | 1,100 |
| | Less: Total contract price | (1,000) |
| | Total foreseeable loss to be recognised as expense | 100 |

**1M**

According 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.

| **(b)** | Contract work-in-progress i.e. cost incurred to date are Rs. 605lakhs | **(Rs. in lakhs)** |
|---|---|---|
| | Work certified | 500 |
| | Work not certified | 105 |
| | | **605** |

**1M**

This is 55% (605/1,100×100) of total costs of construction.

(c) Proportion of total contract value recognisedas revenue:
55% of Rs. 1,000 lakhs = Rs. 550lakhs **1M**

(d) Amount due from/to customers = (Contract costs + Recognised profits– RecognisedLosses) – (Progress payments received + Progress payments to be received)
= (605 + Nil – 100) – (400 + 140) Rs. in lakhs
= [505 – 540] Rs. in lakhs
Amount duetocustomers = Rs. 35lakhs
The amount of Rs. 35 lakhs will be shown in the balance sheet as liability. **1M**

(e) The relevant disclosures under AS 7 are givenbelow:

| | Rs. inlakhs |
|---|---|
| Contract revenue | **550** |
| Contract expenses | 605 |
| Recognised profits less recognised losses | (100) |
| Progress billings Rs. (400 + 140) | 540 |
| Retentions (billed but not received from contractee) | 140 |
| Gross amount due to customers | 35 |

**1M**

**(b)** •As per para 63 of AS 26 "Intangible Assets," the depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimates of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortization should commence when the asset is available for use. **2M**

•Base Limited has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. The period of 12 years is more than the maximum period of 10 years specified as per AS 26. **1M**

•Accordingly, Base Limited would be required to restate the carrying amount of intangible asset as on 1.4.2011 at Rs. 112 lakhs less Rs. 33.6 lakhs $\left(\frac{112\,\text{lakhs}}{10\,\text{year}} \times 3\,\text{years}\right)$ = Rs. 78.4 lakhs. The difference of Rs. 6.6 lakhs i.e. (Rs. 85 lakhs - Rs. 78.4 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of Rs. 78.4 lakhs would be amortized over remaining 7 year by Rs. 11.2 lakhs per year. **2M**

**(c)** According to AS 29 (Revised) 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions aresatisfied:

(i) There is a present obligation arising out of past events but not recognised as provision.
(ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle theobligation.
(iii) The possibility of an outflowof resources embodying economic benefits is notremote.
(iv) The amount of the obligation cannot be measured with sufficient reliability to be recognised asprovision.

**1½M**

In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29 (Revised), we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is remote, therefore disclosure by way of note should be made.
For the purpose of the disclosure of contingent liability by way of note, amount may be calculated asunder: **1½M**

Expected loss in next ten cases = 30% of Rs. 1,20,000 + 10% of Rs. 2,00,000
= Rs. 36,000 + Rs. 20,000
= Rs. 56,000
**¾M**

Expected loss in remaining five cases = 30% of Rs. 1,00,000 + 20% of Rs. 2,10,000
= Rs. 30,000 + Rs. 42,000
= Rs. 72,000
**¾M**

To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of Rs. 9,20,000 (Rs. 56,000 × 10 + Rs. 72,000 × 5) as contingentliability. **½M**

**(d)** Amalgamation in the nature of merger is an amalgamation, as per para 3(e) of AS-14, which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transfereecompany. **1M**

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of theamalgamation. **1M**

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee companywhollybytheissueofequitysharesinthetransfereecompany,except thatcashmaybepaidinrespectofanyfractionalshares. **1M**

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transfereecompany. **1M**

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies. For example, if transferor companyis following straight line method of depreciation, the book value of the assets of the transferor company will be revised by applying the written down method ofdepreciation. **1M**

**Answer: 2**

**(a)**

| Date | Particulars | | Rs. | Rs. | |
|---|---|---|---|---|---|
| 31.3.20X2 | Employees compensation expense A/c | Dr. | 14,25,000 | | |
| | To ESOS outstanding A/c | | | 14,25,000 | **¾M** |
| | (Beingcompensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,000 employees at a discount of Rs. 30 each, amortised on straight line basis over vesting years (ReferW.N.) | | | | |
| | Profit and Loss A/c | Dr. | 14,25,000 | | |
| | To Employees compensation expensesA/c | | | 14,25,000 | **¾M** |
| | (Being expenses transferred to profit and Loss A/c) | | | | |

| Date | Particulars | | Dr. (Rs.) | Cr. (Rs.) | Marks |
|---|---|---|---|---|---|
| 31.3.20X3 | Employees compensation expenses A/c<br>To ESOS outstanding A/c<br>(Being compensation expense recognized in respect of the ESOP- Refer W.N.) | Dr. | 3,95,000 | 3,95,000 | ¾M |
| | Profit and Loss A/c<br>To Employees compensation expensesA/c<br>(Being expenses transferred to profit and Loss A/c) | Dr. | 3,95,000 | 3,95,000 | ¾M |
| 31.3.20X4 | Employees compensation Expenses A/c<br>To ESOS outstanding A/c<br>(Being compensation expense recognized in respect of the ESOP- Refer W.N.) | Dr. | 8,05,000 | 8,05,000 | ¾M |
| | Profit and Loss A/c<br>To Employees compensation expensesA/c<br>(Being expenses transferred to profit and Loss A/c) | | 8,05,000 | 8,05,000 | ¾M |
| 20X4-X5 | Bank A/c (85,000 × Rs. 20)<br>ESOS outstanding A/c [(26,25,000/87,500) x 85,000]<br>To Equity share capital (85,000 x Rs. 10)<br>To Securities premium A/c (85,000 x Rs. 40)<br>(Being 85,000 options exercised at an exercise price of Rs. 50 each) | Dr.<br>Dr. | 17,00,000<br>25,50,000 | <br><br>8,50,000<br>34,00,000 | ¾M |
| 31.3.20X5 | ESOS outstanding A/c<br>To General Reserve A/c<br>(Being ESOS outstanding A/c on lapse of 2,500 options at the end of exercise of option period transferred to General Reserve A/c) | Dr. | 75,000 | 75,000 | ¾M |

**Working Note:**

Statement showing compensation expense to be recognized at the end of:

| Particulars | Year 1 (31.3.20X2) | Year 2 (31.3.20X3) | Year 3 (31.3.20X4) | Marks |
|---|---|---|---|---|
| Number of options expected tovest | 95,000 options | 91,000 options | 87,500 options | |
| Total compensation expense accrued(50-20) | Rs.28,50,000 | Rs.27,30,000 | Rs.26,25,000 | 1M |
| Compensation expense of the year | 28,50,000 x1/2 = Rs.14,25,000 | 27,30,000 x2/3 = Rs.18,20,000 | Rs.26,25,000 | 1M |
| Compensation expense recognizedpreviously | Nil | Rs. 14,25,000 | Rs.18,20,000 | 1M |
| Compensation expenses to be recognized for the year | Rs. 14,25,000 | Rs.3,95,000 | Rs.8,05,000 | 1M |

**(b)**

**(i) Statement showing underwriters' liability for sharesother than shares underwritten firm**

| | X | Y | Z | Total | |
|---|---|---|---|---|---|
| Gross liability (Issued shares – purchased by promoters, directors etc) | 5,85,000 | 2,25,000 | 90,000 | 9,00,000 | ½M |
| (9,00,000 shares in the ratio of 65 : 25 : 10) | | | | | |
| *Less*: Marked applications | (1,19,500) | (57,500) | (10,500) | (1,87,500) | ½M |
| | 4,65,500 | 1,67,500 | 79,500 | 7,12,500 | ½M |
| *Less :* Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10 | (4,55,000) | (1,75,000) | (70,000) | (7,00,000) | ½M |
| | 10,500 | (7,500) | 9,500 | 12,500 | ½M |
| Surplus of Y allocated to X and Z in the ratio 65 :10 | (6,500) | 7,500 | (1,000) | – | ½M |
| Additional shares to be purchased by X &Z | 4,000 | – | 8,500 | 12,500 | ½M |

| | Rs. | Rs. | Rs. | |
|---|---|---|---|---|
| Additional Liability for additional shares @ Rs.11 | 44,000 | – | 93,500 | ½M |
| Underwriting commission payable on Gross Liability | | | | |
| (Shares underwritten as Gross liability × Rs.11 × 2%) | (1,28,700) | (49,500) | (19,800) | ½M |
| Net Amount payable | (84,700) | (49,500) | - | ½M |
| Net Amount receivable | - | - | 73,700 | ½M |

**(ii) JournalEntries**

| | Dr. Rs. | Cr. Rs. | |
|---|---|---|---|
| Bank A/c Dr. | 11,00,000 | | ¾M |
| To Equity Shares Application A/c | | 11,00,000 | |
| (Being application money received on 1 lakh equity shares purchased by directors etc. @ Rs.11 pershare) | | | |

| | | | | |
|---|---|---|---|---|
| Bank A/c | Dr. | 97,62,500 | | |
| To Equity Share Application A/c | | | 97,62,500 | ¾M |
| (Application money received on 8,87,500 equity shares @ Rs.11 per share from general public and underwriters for shares underwritten firm) | | | | |
| Equity Share Application A/c | Dr. | 1,08,62,500 | | |
| X' s A/c | Dr. | 44,000 | | |
| Z' s A/c | Dr. | 93,500 | | |
| To Equity Share Capital A/c | | | 1,00,00,000 | ¾M |
| To Securities Premium A/c | | | 10,00,000 | |
| (Allotment of 10 lakh equity shares of Rs.10 each at a premium of Rs.1 per share) | | | | |
| Underwriting commission A/c | Dr. | 1,98,000 | | |
| To X's A/c | | | 1,28,700 | |
| To Y's A/c | | | 49,500 | |
| To Z's A/c | | | 19,800 | ¾M |
| (Amount of underwriting commission payable to X, Y and Z @2% on the amount of sharesunderwritten) | | | | |
| Bank A/c | Dr. | 73,700 | | |
| To Z's A/c | | | 73,700 | ¾M |
| (Amount received from Z in final settlement) | | | | |
| X's A/c | Dr. | 84,700 | | |
| Y's A/c | Dr. | 49,500 | | |
| To Bank A/c | | | 1,34,200 | ¾M |
| (Amount paid to X and Y in final settlement) | | | | |

**Answer: 3**

**In the Books of Vayu Ltd.**

**Realisation Account**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Sundry Assets | 5,70,000 | By | Retirement Gratuity Fund | 20,000 |
| To | Preference Shareholders (Premium on Redemption) | 10,000 | By | Trade payables | 80,000 |
| To | Equity Shareholders (Profit on Realisation) | 50,000 | By | HariLtd. (Purchase Consideration) | 5,30,000 |
| | | 6,30,000 | | | 6,30,000 |

6 items = ½M

**Equity Shareholders Account**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Equity Shares of Hari Ltd. | 4,20,000 | By | Share Capital | 3,00,000 |
| | | | By | General Reserve | 70,000 |
| | | | By | Realisation Account (Profit on Realisation) | 50,000 |
| | | 4,20,000 | | | 4,20,000 |

4 items = ½M

**Preference Shareholders Account**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | 9% Preference Shares of Hari Ltd. | 1,10,000 | By | Preference Share Capital | 1,00,000 |
| | | | By | RealisationAccount (Premium on Redemption of Preference Shares) | 10,000 |
| | | 1,10,000 | | | 1,10,000 |

3 items = ½M

**Hari Ltd. Account**

| | | Rs. | | | Rs. |
|---|---|---|---|---|---|
| To | Realisation Account | 5,30,000 | By | 9% Preference Shares | 1,10,000 |
| | | | By | Equity Shares | 4,20,000 |
| | | 5,30,000 | | | 5,30,000 |

3 items = ½M

**In the Books of Hari Ltd.**

**Journal Entries**

| | | Dr. | Cr. | |
|---|---|---|---|---|
| | | Rs. | Rs. | |
| Business Purchase A/c | Dr. | 5,30,000 | | ½M |
| To Liquidators of Vayu Ltd. Account | | | 5,30,000 | |
| ( Being business of Vayu Ltd. taken over) | | | | |
| Goodwill Account | Dr. | 50,000 | | 1M |
| Building Account | Dr. | 1,50,000 | | |
| Machinery Account | Dr. | 1,60,000 | | |
| Inventory Account | Dr. | 1,57,500 | | |
| Trade receivables Account | Dr. | 1,00,000 | | |
| Bank Account | Dr. | 20,000 | | |
| To Retirement Gratuity Fund Account | | | 20,000 | |
| To Trade payables Account | | | 80,000 | |
| To Provision for Doubtful Debts Account | | | 7,500 | |
| To Business Purchase A/c | | | 5,30,000 | |
| (Being Assets and Liabilities taken over as per agreed valuation). | | | | |
| Liquidators of Vayu Ltd. A/c | Dr. | 5,30,000 | | ½M |
| To 9% Preference Share Capital A/c | | | 1,10,000 | |
| To Equity Share Capital A/c | | | 4,00,000 | |
| To Securities Premium A/c | | | 20,000 | |
| (Being Purchase Consideration satisfied as above). | | | | |

**Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1**

| | | Particulars | Notes | Rs. | |
|---|---|---|---|---|---|
| | | **Equity and Liabilities** | | | |
| **1** | | **Shareholders' funds** | | | |
| | A | Share capital | 1 | 16,10,000 | }½M |
| | B | Reserves and Surplus | 2 | 90,000 | }½M |
| **2** | | **Non-current liabilities** | | | |
| | A | Long-term provisions | 3 | 70,000 | }½M |
| **3** | | **Current liabilities** | | | |
| | A | Trade Payables | | 2,10,000 | }½M |
| | B | Short term provision | | 7,500 | }½M |
| | | **Total** | | **19,87,500** | |
| | | **Assets** | | | |
| **1** | | **Non-current assets** | | | |
| | A | Fixed assets | | | |
| | | Tangible assets | 4 | 11,10,000 | }½M |
| | | Intangible assets | 5 | 1,00,000 | }½M |
| **2** | | **Current assets** | | | |
| | A | Inventories | | 4,07,500 | }½M |
| | B | Trade receivables | 6 | 3,00,000 | }½M |
| | C | Cash and cash equivalents | | 70,000 | }½M |
| | | **Total** | | **19,87,500** | |

**Notes to accounts**

| | | | Rs. | |
|---|---|---|---|---|
| **1** | **Share Capital** | | | |
| | Equity share capital | | | |
| | 1,40,000 Equity Shares of Rs. 10 each fully paid(Out of above 40,000 Equity Shares were issued in consideration other than forcash) | | 14,00,000 | |
| | Preference share capital | | | |
| | 2,100 9% Preference Shares of Rs. 100 each (Out of above 1,100 Preference Shares were issued in consideration other than forcash) | | 2,10,000 | |
| | **Total** | | **16,10,000** | }½M |
| **2** | **Reserves and Surplus** | | | |
| | Securities Premium | | 20,000 | |
| | General Reserve | | 70,000 | |
| | **Total** | | **90,000** | }½M |
| **3** | **Long-term provisions** | | | |
| | Gratuity fund | | 70,000 | |
| | **Total** | | **70,000** | }½M |
| **4** | **Short term Provisions** | | | |
| | Provision for Doubtful Debts | | 7,500 | |
| | **Total** | | **7,500** | }½M |
| **5** | **Tangible assets** | | | |
| | Buildings | | 4,50,000 | |
| | Machinery | | 6,60,000 | |

| | | | | |
|---|---|---|---|---|
| | **Total** | | **11,10,000** | **}½M** |
| **6** | **Intangible assets** | | | |
| | Goodwill | | 1,00,000 | |
| | **Total** | | **1,00,000** | **}½M** |
| **7** | **Trade receivables** | | 3,00,000 | |

**Working Notes:**

| **Purchase Consideration:** | **Rs.** | |
|---|---|---|
| Goodwill | 50,000 | |
| Building | 1,50,000 | |
| Machinery | 1,60,000 | |
| Inventory | 1,57,500 | |
| Trade receivables | 92,500 | |
| Cash at Bank | 20,000 | |
| | 6,30,000 | |
| Less: Liabilities: | | |
| Retirement Gratuity | (20,000) | **2M** |
| Trade payables | (80,000) | |
| Net Assets/ Purchase Consideration | 5,30,000 | |
| To be satisfied as under: | | |
| 10% Preference Shareholders of Vayu Ltd. | 1,00,000 | |
| Add: 10% Premium | 10,000 | |
| 1,100 9% Preference Shares of Hari Ltd. | 1,10,000 | |
| Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 | | |
| Equity Shares of Hari Ltd. at 5% Premium | 4,20,000 | |
| Total | 5,30,000 | |

**Answer: 4 (a)**

**KLM Bank Limited**

**Profit and Loss Account for the year ended 31st March, 20X2**

| | | *Schedule* | *Yearended 31.03.20X2* | |
|---|---|---|---|---|
| | | | Rs. | |
| I. | Income: | | | |
| | Interest earned | 13 | 37,95,160 | **}¾M** |
| | Other income | 14 | 4,87,800 | **}¾M** |
| | Total | | 42,82,960 | |
| II. | Expenditure | | | |
| | Interest expended | 15 | 22,95,360 | **}¾M** |
| | Operating expenses | 16 | 5,70,340 | **}¾M** |
| | Provisions and contingencies | | | |
| | (4,50,000+2,00,000+2,00,000) | | 8,50,000 | **}¾M** |
| | Total | | 37,15,700 | |
| III. | Profits/Losses | | | |

| | | | | |
|---|---|---|---|---|
| | Net profit for the year | | 5,67,260 | }¾M |
| | Profit brought forward | | Nil | }¾M |
| | | | 5,67,260 | |
| IV. | Appropriations | | | |
| | Transfer to statutory reserve (25% of 5,67,260) | | 1,41,815 | }¾M |
| | Proposed dividend | | 50,000 | }¾M |
| | Balance carried over to balance sheet | | 3,75,445 | }¾M |
| | | | 5,67,260 | |

Profit & Loss Account balance of Rs. 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

| | | *Year ended 31.3.20X2* (Rs. ) | |
|---|---|---|---|
| | Schedule 13 – Interest Earned | | |
| I. | Interest/discount on advances/bills (Refer W.N.) | 37,95,160 | }½M |
| | | 37,95,160 | |
| | Schedule 14 – Other Income | | |
| I. | Commission, exchange and brokerage | 1,90,000 | }½M |
| II. | Profit on sale of investment | 2,25,800 | }½M |
| III. | Rent received | 72,000 | }½M |
| | | 4,87,800 | |
| | Schedule 15 – Interest Expended | | |
| I. | Interests paid on deposits | 22,95,360 | }½M |
| | | 22,95,360 | |
| | Schedule 16 – Operating Expenses | | |
| I. | Payment to and provisions for employees (salaries &allowances) | 2,50,000 | }½M |
| II. | Rent, taxes paid | 1,00,000 | }½M |
| III. | Depreciation on assets | 40,000 | }½M |
| IV. | Director's fee, allowances and expenses | 35,000 | }½M |
| V. | Auditor's fee | 12,000 | }½M |
| VI. | Statutory (law) expenses | 38,000 | }½M |
| VII. | Postage and telegrams | 65,340 | }½M |
| VIII. | Preliminary expenses* | 30,000 | }½M |
| | | 5,70,340 | |

**Working Note:**

| | Rs. | |
|---|---|---|
| Interest and discount received | 38,00,160 | 4 items = ¼M |
| *Add:* Rebate on bills discounted on 31.3. 20X1 | 15,000 | |
| *Less:* Rebate on bills discounted on 31.3. 20X2 | (20,000) | |
| | 37,95,160 | |

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

| | | Rs. in 000 | |
|---|---|---|---|
| Paid up Equity Capital | | 100 | }½M |
| Free Reserves | | 500 | }½M |
| | | 600 | |

| | | | |
|---|---|---|---|
| Less: Deferred expenditure | | (200) | }½M |
| | A | 400 | }½M |
| Investments | | | |
| In shares of subsidiaries and group companies | | 100 | }½M |
| In debentures of subsidiaries and groupcompanies | | 100 | }½M |
| | B | 200 | }½M |
| 10% of A | | 40 | }½M |
| Excess of Investment over 10% of A(200-40) | C | 160 | }½M |
| Net Owned Fund [(A) - (C)] (400-160) | | 240 | }½M |

**Answer: 5**

**Consolidated Profit &Loss Account of H Ltd. and its subsidiary S Ltd. for the year ended on 31st March,2017**

| *Particulars* | *Note No.* | *Rs. in Lacs* |
|---|---|---|
| I. Revenue fromoperations | 1 | 5,865 |
| II. Totalrevenue | | 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 beforeTax(II-III) | | 4,096 |
| V. TaxExpenses | 8 | 1,400 |
| VI. Profit AfterTax | | 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 Rs. 150 lacs | (120) | (1,230) |
| Profit to be transferred to consolidated balance sheet | | 1,466 |

**Notes to Accounts**

| | | *Rs. in Lacs* | *Rs. in Lacs* |
|---|---|---|---|
| 1. | Revenue from Operations | | |
| | Sales and other income | | |
| | H Ltd. | 5,000 | |

| | | | |
|---|---|---|---|
| | S Ltd. | 1,000 | |
| | | 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. | (10) | 5,865 |
| 2. | Increase in Inventory | | |
| | H Ltd. | 1,000 | |
| | S Ltd. | 200 | |
| | | 1,200 | |
| | Less: Unrealised profits Rs. 24 lacs × $\frac{20}{120}$ | (4) | 1,196 |
| | | | 7,061 |
| 3. | Cost of Material purchased/consumed | | |
| | H Ltd. | 800 | |
| | S Ltd. | 200 | |
| | | 1,000 | |
| | *Less*: Purchases by S Ltd. from H Ltd. | (120) | 880 |
| | Direct Expenses (Production) | | |
| | H Ltd. | 200 | |
| | S Ltd. | 100 | 300 |
| | | | 1,180 |
| 4. | Employee benefits and expenses | | |
| | Wages and Salaries: | | |
| | H Ltd. | 800 | |
| | S Ltd. | 150 | 950 |
| 5. | Other Expenses | | |
| | Administrative Expenses | | |
| | H Ltd. | 200 | |
| | S Ltd. | 100 | |
| | | 300 | |
| | *Less*: Consultancy fees received by H Ltd. from S Ltd. | (5) | 295 |
| | Selling and Distribution Expenses: | | |
| | H Ltd. | 200 | |
| | S Ltd. | 50 | |
| | | 250 | |
| | *Less*: Commission received from S Ltd. from H Ltd. | (10) | 240 |
| | | | 535 |
| 6. | Finance Cost | | |
| | Interest: | | |
| | H Ltd. | 100 | |
| | S Ltd. | 50 | 150 |

| | | | |
|---|---|---|---|
| 7. | Depreciation and Amortisation | | |
| | Depreciation: | | |
| | H Ltd. | 100 | |
| | S Ltd. | 50 | 150 |
| 8. | Provision for tax | | |
| | H Ltd. | 1,200 | |
| | S. Ltd. | 200 | 1,400 |

**Answer: 6**

**(a) Analysis :-**

(i) P Ltd. is a majority shareholder [60%] in Q Ltd. Thus, P Ltd has contral over Q Ltd.

(ii) Q. Ltd holds 20% shares in R Ltd.
So Q Ltd has significant influence over R Ltd.

(iii) P Ltd & Q Ltd. together hold (14% + 20%) = 34% of the shares in R Ltd.
So, P Ltd. has significant influence over R Ltd.

**1½M**

Signification influence

When an investing Party holds; directly or indirectly through intermediaries, 20% or more of the voting power, it is presumed that there is a significant influence, unless otherwise proved, P Ltd., Q Ltd. and R Ltd. are related parties.
Hence the disclosure requirement of AS-18 are applicable in the above case.

**1½M**

**(b)** Allocation of earnings

| | Old unit holders (9 lakh units) (Rs. Lakh) | New unit holders (1 lakh units) (Rs. lakh) | Total earning (Rs. Lakh) |
|---|---|---|---|
| First half-year (Rs. 5.00 per unit) | 45.0 | Nil | 45.0 |
| Second half-year (Rs. 3.60 per unit) | 32.4 | 3.6 | 36.0 |
| | 77.4 | 3.6 | 81.0 |
| Add:Equalisationpayment recovered | | | 5.0 |
| Total available for distribution | | | 86.0 |

**2M**

**Note:** Equalisation payment = Rs. 45 lakh / 9 lakh = Rs. 5 per unit.

**Distribution of earning per unit**

| | *Old unit holders* *Rs.* | *New unit holders* *Rs.* |
|---|---|---|
| Dividend distributed | 8.60 | 8.60 |
| *Less*: Equalisation payment | | (5.00) |
| Net distributed income | 8.60 | 3.60 |

**1M**

**Journal Entries**

| *Date* | | *Rs. lakh* | *Rs. lakh* | |
|---|---|---|---|---|
| 30.09.16 | Bank Dr. | 65 | | 1 lakh x Rs. 65 |
| | To Unit Capital | | 10 | 1 lakh x Rs. 10 |
| | To Reserves | | 50 | 1 lakh x Rs. 50 |
| | To Dividend Equalisation | | 5 | 1 lakh x Rs. 5 |
| 31.03.17 | DividendEqualisation Dr. | 5 | | |

**1M**

**1M**

| | | | | |
|---|---|---|---|---|
| | To Revenue A/c | | 5 | |
| 31.03.17 | RevenueA/c Dr. | 86 | | |
| | To Bank | | 86 | 10 lakh x Rs. 8.60 |

1M

**(c)** Section 326 of the Companies Act, 2013 is 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 paripassu change in favor of the workman to the extent of their portion. **½M**

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realied * Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}}$$ **½M**

$$\text{Workman's Share to Secured Asset} = \frac{4,00,00,000*1,25,00,000}{1,25,00,000 + 5,00,00,000}$$

$$4,00,00,000*\frac{1}{5}$$

Workman's Share to Secured Assets = 80,00,000 **½M**

**{**Amount available to secured creditor is Rs.400 Lakhs–80 Lakhs = 320 Lakhs**}1M**

**{**Hence, no amount is available for payment of government dues and unsecured creditors. **}1M**

**(d)**

| | | | Rs. | |
|---|---|---|---|---|
| a | Profit for equity fund after current costadjustment | | 1,72,000 | }½M |
| b | Profit (as per Long-term fund approach) | | | |
| | Profit for equity fund | 1,72,000 | | |
| | Add: Interest on Long-term loan (4,50,000x10%) | 45,000 | 2,17,000 | }½M |
| c | Current cost of capital employed (by Equity approach) | | 10,40,000 | }½M |
| d | Capital employed as per Long-term fund approach | | | |
| | Current cost of capital employed (by Equity approach) | 10,40,000 | | |
| | Add: 10% Long term loan | 4,50,000 | 14,90,000 | }½M |
| e | Value of Goodwill | | | |
| | (A) By EquityApproach | | | |
| | Capitalised value of Profit as per equity approach = $\frac{1,72,000}{15.60} \times 100$ | | 11,02,564 | }½M |
| | Less: Capital employed as per equityapproach | | (10,40,000) | }½M |
| | Value of Goodwill | | 62,564 | |
| | (B) By Long-Term FundApproach | | | |
| | Capitalized value of Profit as per Long-term fund approach = $\frac{2,17,000}{13.5} \times 100$ | | 16,07,407 | }½M |

| | | | | |
|---|---|---|---|---|
| | *Less*: Capital employed as per Long-term fund approach | | (14,90,000) | }½M |
| | Value of Goodwill | | 1,17,407 | |

**Leverage effect on Goodwill:**

**{**Adverse Leverage effect on goodwill is Rs.54,843 (i.e.Rs.1,17,407–Rs.62,564).**}1M**

**(e) Form B – RA (Prescribed by IRDA)**

**Name of the Insurer:** X Fire Insurance Co. Ltd.

**Registration No. and Date of registration with theIRDA:** …………………..

**Revenue Account for the year ended 31$^{st}$March, 2013**

| | *Particulars* | *Schedule* | *Current year ended on 31$^{st}$March, 2013* | |
|---|---|---|---|---|
| | | | *Rs.* | |
| 1. | Premiums earned (Net) | 1 | 8,40,000 | }½M |
| | Total (A) | | 8,40,000 | |
| 1. | Claims incurred (Net) | 2 | 8,00,000 | }½M |
| 2. | Commission | 3 | 50,000 | }½M |
| 3. | Operating Expenses | 4 | 3,00,000 | }½M |
| | Total (B) | | 11,50,000 | |
| | Operating Profit/(Loss) from Fire Insurance Business [C =(A – B)] | | (3,10,000) | }½M |

**Schedule 1Premiums earned (Net)**

| | *Rs.* | |
|---|---|---|
| Premium received | 15,00,000 | |
| *Less:* Premium on re-insurance paid | (1,00,000) | |
| | 14,00,000 | 1M |
| Less: Reserve required for unexpired risk @ 40% of Net Premium | 5,60,000 | |
| Net Premium Earned | 8,40,000 | |

**Schedule 2 Claims**

| | *Rs.* | |
|---|---|---|
| Claims paid | 7,00,000 | |
| *Add:* Claims outstanding on 31.3.2013 | 1,00,000 | ½M |
| | 8,00,000 | |

**Schedule 3 Commission**

| | | |
|---|---|---|
| Commission paid during the year | 50,000 | ½M |
| Total in the Year | 50,000 | |

**Schedule 4 Operating expenses**

| | *Rs.* | |
|---|---|---|
| Expenses of Management | 3,00,000 | ½M |

***