PAPER – 5 : ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **five** questions from the remaining **six** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

(a) Bansal Company Ltd. imported raw material worth US Dollars 12,000 on 15th Jan, 2019 when the exchange rate was ₹ 68 per US Dollar. The payment for the transaction was made on 5th May, 2019 when exchange rate was ₹ 64 per US Dollar. At the year end, 31st March, 2019, the rate of exchange was ₹ 65 per US Dollar. The accountant of the company passed entry on 31st March, 2019 adjusting the cost of raw material consumed for the difference between ₹ 64 and ₹ 68 per US Dollar. Discuss whether this treatment is justified as per the provisions of AS-11 (Revised).

(b) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31st March, 2019 (accounts were approved on 25th July, 2019):

(1) Negotiations with another company for acquisition of its business was started on 21st January, 2019. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2019.

(2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2019, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2019 the debtor became bankrupt.

(3) During the year 2018-2019, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31st March, 2019. On 26th May, 2019, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

(4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2019. However the same comes to the notice of Company management during August, 2019.

(5) Cheques dated 31st March, 2019 collected in the month of April, 2019. All cheques are presented to the bank in the month of April, 2019 and are also realized in the same month in the normal course after deposit in the bank.

(c) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2018, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st Jan, 2018, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31st March, 2019 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

(1) The carrying amount of the Intangible asset on 31st March, 2018.

(2) The expenditure to be shown in Statement of Profit and Loss Account for the year ended 31st March, 2019.

(3) The carrying amount of the Intangible asset on 31st March, 2019.

(d) From the following information, compute unearned finance income as per AS-19.

Fair value of Machine	*₹ 65 lakh*
Lease Term	*5 years*
Lease Rent	*₹ 10 lakh per annum*
Guaranteed Residual Value	*₹ 1.4 lakh*
Expected Residual Value	*₹ 2.3 lakh*
Internal Rate of Return	*10%*

Discount rates from 1st to 5th year are 0.909, 0.826, 0.751, 0.683 and 0.621 respectively.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) As per AS 11, 'The Effects of Changes in Foreign Exchange Rates', initial recognition of a foreign currency transaction is done in the reporting currency by applying the exchange rate at the date of the transaction. Accordingly, on 15th January, 2019, the raw material purchased and its creditors will be recorded at US dollar 12,000 × ₹ 68 = ₹ 8,16,000.

Also, on balance sheet date such transaction is reported at closing rate of exchange, hence it will be valued at the closing rate i.e. ₹ 65 per US dollar (USD 12,000 x ₹ 65 = ₹ 7,80,000) at 31st March, 2019, irrespective of the payment made for the same subsequently at lower rate in the next financial year.

The difference of ₹ 3 (65 – 68) per US dollar i.e. ₹ 36,000 (USD 12,000 x ₹ 3) will be shown as an exchange gain in the profit and loss account for the year ended 31st March, 2019 and will not be adjusted against the cost of raw materials.

In the subsequent year on settlement date, the company would recognize or provide in the Profit and Loss account an exchange gain of ₹ 1 per US dollar, i.e. the difference from balance sheet date to the date of settlement between ₹ 65 and ₹ 64 per US dollar i.e. ₹ 12,000.

Hence, the accounting treatment adopted by the Accountant of the company is incorrect i.e. it is not in accordance with the provisions of AS 11.

(b) **(i)** As per AS 4'Contingencies and Events Occurring After the Balance Sheet Date', disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2019 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(ii) As per AS 4, adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for ₹ 2,50,000 suffered heavy loss due to earthquake in the second week of March, 2019 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2019 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2019.

(iii) As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2018-19 for which the provision was also made by it, the decision of the Court on 26th May, 2019, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

(iv) As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31st March, 2019. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2020, in a manner, that its impact on current profit or loss can be perceived.

(v) Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31st March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

(c) As per AS 26 'Intangible Assets'

(i) **Carrying value of intangible asset as on 31.03.2018**

At the end of financial year, on 31st March 2018, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68 [1]) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January, 2018).

(ii) **Expenditure to be charged to Profit and Loss account for the year ended 31.03.2019**

	(₹ in lacs)
Carrying Amount as on 31.03.2018	30
Expenditure during 2018 – 2019	72
Book Value	102
Recoverable Amount	(52)
Impairment loss	50

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2019.

(iii) **Carrying value of intangible asset as on 31.03.2019**

	(₹ in lacs)
Book Value	102
Less: Impairment loss	(50)
Carrying amount as on 31.03.2019	52

(d) As per AS 19 on Leases, ***unearned finance income*** is the difference between (a) the ***gross investment*** in the lease and (b) the present value of minimum lease payments under a finance lease from the standpoint of the lessor; and any unguaranteed residual value accruing to the lessor, at the interest rate implicit in the lease.

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[1] *₹ 68 lakhs is recognized as an expense because the recognition criteria were not met until 31st December 2017. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.*

Where:

(a) ***Gross investment*** in the lease is the aggregate of (i) minimum lease payments from the stand point of the lessor and (ii) any unguaranteed residual value accruing to the lessor.

Gross investment = Minimum lease payments + Unguaranteed residual value

= [Total lease rent + Guaranteed residual value (GRV)] + Unguaranteed residual value (URV)

= [(₹ 10,00,000 × 5 years) + ₹ 1,40,000] + ₹ 90,000 = ₹ 52,30,000 (a)

(b) Table showing present value of (i) Minimum lease payments (MLP) and (ii) Unguaranteed residual value (URV).

Year	*MLP inclusive of URV* ₹	*Internal rate of return (Discount factor @ 15%)*	*Present Value* ₹
1	10,00,000	0.909	9,09,000
2	10,00,000	0.826	8,26,000
3	10,00,000	0.751	7,51,000
4	10,00,000	0.683	6,83,000
5	10,00,000	0.621	6,21,000
	(GRV)1,40,000	0.621	86,940
	51,40,000		(i) 38,76,940
	(URV)90,000	0.621	(ii) 55,890
	52,30,000	(i)+ (ii)	39,32,830 (b)

Unearned Finance Income (a) - (b) = ₹ 52,30,000 – ₹ 39,32,830=₹ 12,97,170.

Question 2

Sagar & Sons is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and UTS Ltd. is a company doing similar business.

Following is the summarized Balance Sheet of the firm and that of the company as at 31.3.2019:

Liabilities	*Sagar & Sons (₹)*	*UTS Ltd. (₹)*	*Assets*	*Sagar & Sons (₹)*	*UTS Ltd. (₹)*
Equity share capital:			*Plant & Machinery*	*5,00,000*	*16,00,000*
Equity shares of ₹ 10 each		*20,00,000*	*Furniture & Fixtures*	*50,000*	*2,25,000*
Partners' capitals:			*Inventories*	*2,00,000*	*8,50,000*

X	*2,00,000*		*Trade receivables*	*2,00,000*	*8,25,000*
Y	*3,00,000*		*Cash at bank*	*10,000*	*4,00,000*
Z	*1,00,000*		*Cash hand in*	*40,000*	*1,00,000*
General reserve	*1,00,000*	*7,00,000*			
Trade payables	*3,00,000*	*13,00,000*			
	10,00,000	*40,00,000*		*10,00,000*	*40,00,000*

On the Balance Sheet date it was decided that the firm M/s Sagar & Sons be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by UTS Ltd. by issuing 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share.

Partners of Sagar & Sons agreed to divide the shares issued by UTS Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payables of Sagar & Sons includes ₹ 1,00,000 payable to UTS Ltd. An unrecorded liability of ₹ 25,000 of Sagar & Sons must also be taken over by UTS Ltd.

Prepare:

(1) Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of Sagar & Sons.

(2) Pass journal entries in the books of UTS Ltd. for acquisition of Sagar & Sons and draw the Balance Sheet of UTS Ltd. after the takeover. ***(16 Marks)***

Answers

(i) In the books of Sagar & Sons

Realisation Account

		₹				₹
To	Plant & Machinery	5,00,000	By	Trade payable		3,00,000
To	Furniture & Fixture	50,000	By	UTS Ltd. (Refer W.N.)		6,00,000
To	Inventories	2,00,000	By	Partners' Capital Accounts (loss):		
To	Trade receivables	2,00,000		X's Capital A/c	20,000	
				Y's Capital A/c	20,000	
				Z's Capital A/c	10,000	50,000
		9,50,000				9,50,000

Partners' Capital Accounts

	X	Y	Z		X	Y	Z
	₹	₹	₹		₹	₹	₹
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in UTS Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash	-	80,000	-	By Cash	20,000	-	10,000
	2,60,000	3,40,000	1,30,000		2,60,000	3,40,000	1,30,000

Cash and Bank Account

	Cash ₹	Bank ₹		Cash ₹	Bank ₹
To Balance b/d	40,000	10,000	By Cash A/c (Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				
To Z	10,000				
	80,000	10,000		80,000	10,000

(ii) Journal Entries in the Books of UTS Ltd.

			Dr. (₹)	*Cr. (₹)*
1.	Business Purchase Account	Dr.	6,00,000	
	To Liquidators of Sagar & Sons			6,00,000
	(Being business of Sagar & Sons purchased and payment due)			
2.	Plant and Machinery A/c	Dr.	5,00,000	
	Furniture and Fixture A/c	Dr.	50,000	
	Inventories A/c	Dr.	2,00,000	
	Trade Receivables A/c	Dr.	2,00,000	
	To Trade Payables			3,00,000

**It is assumed that cash at bank has been withdrawn to pay to Partner Y.*

	To Unrecorded Liability		25,000
	To Business Purchase Account		6,00,000
	To Capital Reserve (B.F.)		25,000
	(Being take over of all assets and liabilities)		
3.	Liquidators of Sagar & Sons Dr.	6,00,000	
	To Equity Share Capital Account		5,00,000
	To Securities Premium Account		1,00,000
	(Being purchase consideration discharged in the form of shares of ₹ 10 each issued at a premium of ₹ 2 each)		
4.	Trade Payables Account Dr.	1,00,000	
	To Trade Receivables Account		1,00,000
	(Being mutual owing eliminated)		

Working Note:

Computation of purchase consideration:

50,000 Equity shares of ₹ 12 each = ₹ 6,00,000

Equity shares to be given to partners :

X	=	20,000 Shares @ ₹ 12 = ₹ 2,40,000
Y	=	20,000 shares @ ₹ 12 = ₹ 2,40,000
Z	=	10,000 shares @ ₹ 12 = ₹ 1,20,000

Balance Sheet of UTS Ltd. (After takeover of Sagar & Sons)

As on 31st March, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	25,00,000
	B	Reserves and Surplus	2	8,25,000
2		Non-current liabilities		
3		Current liabilities		
	A	Trade Payables		15,00,000
		Others (Unrecorded liability)		25,000
		Total		48,50,000

		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	23,75,000
2		Current assets		
	A	Inventories		10,50,000
	B	Trade receivables		9,25,000
	C	Cash and cash equivalent	4	5,00,000
		Total		48,50,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	2,50,000 Equity Shares of ₹ 10 each fully paid (50,000 shares were issued in consideration other than for cash)		25,00,000
2	Reserves and Surplus		
	Securities Premium		1,00,000
	General Reserve		7,00,000
	Capital Reserve		25,000
			8,25,000
3	Property, Plant and Equipment		
	Plant & Machinery		21,00,000
	Furniture & Fixtures		2,75,000
			23,75,000
4.	Cash & Cash Equivalent		4,00,000
	Cash at Bank		1,00,000
	Cash in Hand		5,00,000

Question 3

(a) *A Limited grants 5,000 options to its employees on 1.04.2015 at ₹ 90/-, when the market price was ₹ 150/-. The vesting period is 3 years. The maximum exercise period is one year. 4,500 options were exercised on 31.03.2019, the remaining options lapsed. Journalize the transactions, if the face value of equity shares is ₹ 10/- per share.*

(b) *On 1st April, 2018 Star Ltd. had 9,000, 9% debentures of ₹ 100 each. On 30th September, 2018 ₹ 1,500 own debentures @ 96 each were purchased by the company in the open market. Debenture interest is payable half yearly on 30th September and 31st March. The company cancelled all the purchased debentures on 31st March, 2019. There was a* *balance of ₹ 3,25,000 in the Debenture Redemption Reserve Account. Accounts are closed on 31st March every year.*

Pass necessary journal entries for the year ended 31st March, 2019 ignoring tax.

(8+8= 16Marks)

Answers

(a) Journal Entries in the books of A Ltd.

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.3.2016	Employees compensation expenses account	Dr.	1,00,000	
	To Employee stock option outstanding account			1,00,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account	Dr.	1,00,000	
	To Employees compensation expenses account			1,00,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2017	Employees compensation expenses account	Dr.	1,00,000	
	To Employee stock option outstanding account			1,00,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortised on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account	Dr.	1,00,000	
	To Employees compensation expenses account			1,00,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2018	Employees compensation expenses account		1,00,000	
	To Employee stock option outstanding account			1,00,000

	(Being compensation expenses recognized in respect of the employee stock option i.e. 5,000 options granted to employees at a discount of ₹ 60 each, amortized on straight line basis over 3 years - 5,000 stock options x ₹ 60/3 years)			
	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)		1,00,000	1,00,000
31.3.2019	Bank A/c (4,500 × ₹ 90)	Dr.	4,05,000	
	Employee stock option outstanding account (4,500 × ₹ 60)	Dr.	2,70,000	
	To Equity share capital account (4,500 × ₹ 10)			45,000
	To Securities premium account (4,500 x ₹ 140)			6,30,000
	(Being 4,500 employee stock option exercised at an exercise price of ₹ 90 each)			
31.3.2019	Employee stock option outstanding account (500x ₹60)	Dr.	30,000	
	To General reserve account			30,000
	(Being ESOS outstanding A/c on lapse of 500 options at the end of exercise of option period transferred to General Reserve A/c)			

(b)

In the books of Star Ltd.
Journal Entries

Date	*Particulars*		*Dr.*	*Cr.*
			₹	*₹*
30.09.2018				
(i)	Debenture interest A/c [9,000 × 100 × 9% × (1/2)]	Dr.	40,500	
	To Debenture holders A/c			40,500
	(Being interest accrued on 9,000 debentures and credited to debenture holders account)			
(ii)	Debenture holders A/c	Dr.	40,500	

	To Bank A/c (Being interest amount paid)			40,500
(iii)	Bank A/c To DRR Investments A/c (Sale of investments for purchase of own debentures – 1,50,000 x 15%)	Dr.	22,500	 22,500
(iv)	Own Debentures A/c To Bank A/c (Purchase of 1,500 Debentures @ ₹ 96 for cancellation*)	Dr.	1,44,000	 1,44,000
31.3.2019 (v)	 9% Debentures A/c (1,500 x 100) To Own Debentures A/c To Profit on cancellation of debentures (or Capital Reserve) (Being profit on cancellation of 1,500 Debentures transferred to capital reserve account)	 Dr.	 1,50,000	 1,44,000 6,000
(vi)	Debentures Interest A/c [7,500 × 100 × 9% × (1/2)] + 1,500 × 100 × 9% × (1/2)] To Debenture holders A/c To Interest on Own Debentures (Being interest accrued on 9,000 debentures and credited to debenture holders account)	Dr.	40,500	 33,750 6,750
(vii)	Debenture holders A/c To Bank A/c (Being amount paid)	Dr.	33,750	 33,750
(viii)	Profit and Loss A/c Interest on Own Debentures A/c To Debentures Interest A/c (Being Interest on Debentures and Interest on Own Debentures transferred to Profit & Loss A/c	Dr. Dr.	74,250 6,750	 81,000
(ix)	Debenture Redemption Reserve A/c To General reserve (Debenture redemption reserve pertaining to debentures cancelled being released to general reserve) (1,50,000 x 25%)	Dr.	37,500	 37,500

** Assumed that these debentures are purchased after interest payment.*

Note: The company is having balance of ₹ 3,25,000 in Debenture Redemption Reserve account as per the information given in the question. It has been considered that the company is also having sufficient corresponding amount of DRR Investment also. Hence, the entry for sale of required amount of investments has been made at the time of redemption of debentures in the above answer. At the time of cancellation of debentures DRR has been transferred to General Reserve which pertains to 1500 cancelled debentures in the given answer, as it is no longer required. Alternatively, DRR can also be transferred for excess amount as the balance of DRR ie. ₹ 2,87,500 (3,25,000 less 37,500) is higher than prescribed amount for the remaining debentures, as required by law.

Question 4

The financial position of two companies Orange Ltd. and Yellow Ltd. as on 31st March, 2019 was as under:

Assets	*Orange Ltd. (₹)*	*Yellow Ltd. (₹)*
Goodwill	*2,10,000*	*90,000*
Building	*7,90,000*	*2,50,000*
Machinery	*12,50,000*	*3,80,000*
Inventory	*6,60,000*	*3,30,000*
Trade receivables	*4,80,000*	*3,60,000*
Cash at Bank	*2,40,000*	*85,000*
	36,30,000	*14,95,000*
Liabilities	*Orange Ltd. (₹)*	*Yellow Ltd. (₹)*
Share Capital:		
Equity shares of ₹10 each	*25,00,000*	*9,00,000*
8% Preference Shares of ₹ 100 each	*2,50,000*	*-*
10% Preference Shares of ₹100 each	*-*	*3,00,000*
General Reserve	*3,05,000*	*1,15,000*
Retirement Gratuity fund	*1,50,000*	*35,000*
Trade· Payables	*4,25,000*	*1,45,000*
	36,30,000	*14,95,000*

Yellow Ltd. is absorbed by Orange Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid, at 10% premium, by issue of 9% Preference Shares of Orange Ltd.

(b) Goodwill of Yellow Ltd. is valued at ₹ 1,50,000, Buildings is worth ₹ 3,50,000, and Machinery ₹ 4,25,000.

(c) Inventory of Yellow Ltd. has been shown at 10% above its cost and expected realization from Trade Receivables is ₹ 3,33,000.

(d) Equity Shareholders of Yellow Ltd. will be issued Equity Shares of Orange Ltd., at 10% premium.

You are required to

(1) Prepare necessary Ledger Accounts to close the books of Yellow Ltd.

(2) Show the acquisition entries in the books of Orange Ltd.

(3) Also draft the Balance Sheet of Orange Ltd. after putting through the scheme assuming that the assets and liabilities of Yellow Ltd. are incorporated at fair value and assets and liabilities of Orange Ltd. are incorporated at carrying values only as at 31st March, 2019.

(16 Marks)

Answer

In the Books of Yellow Ltd.
Realization Account

		₹			₹
To	Sundry Assets	14,95,000	By	Retirement Gratuity Fund	35,000
To	Preference Shareholders	30,000	By	Trade payables	1,45,000
	(Premium on Redemption)		By	Orange Ltd. (Purchase Consideration)	14,63,000
To	Equity Shareholders				
	(Profit on Realization)	1,18,000			
		16,43,000			16,43,000

Equity Shareholders Account

		₹			₹
To	Equity Shares of Orange Ltd.	11,33,000	By	Share Capital	9,00,000
			By	General Reserve	1,15,000
			By	Realization Account (Profit on Realization)	1,18,000
		11,33,000			11,33,000

Preference Shareholders Account

	₹		₹
To 9% Preference Shares of Orange Ltd.	3,30,000	By Preference Share Capital	3,00,000
		By Realization Account (Premium on Redemption of Preference Shares)	30,000
	3,30,000		3,30,000

Orange Ltd. Account

	₹		₹
To Realization Account	14,63,000	By 9% Preference Shares	3,30,000
		By Equity Shares	11,33,000
	14,63,000		14,63,000

In the Books of Orange Ltd.
Journal Entries

		Dr.	*Cr.*
		₹	₹
Business Purchase A/c	Dr.	14,63,000	
To Liquidators of Yellow Ltd. Account			14,63,000
Being business of Yellow Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Building Account	Dr.	3,50,000	
Machinery Account	Dr.	4,25,000	
Inventory Account (3,33,000 x 100/10)	Dr.	3,00,000	
Trade receivables Account	Dr.	3,33,000	
Bank Account	Dr.	85,000	
To Retirement Gratuity Fund Account			35,000
To Trade payables Account			1,45,000
To Business Purchase A/c			14,63,000
(Being Assets and Liabilities taken over as per agreed valuation)			
Liquidators of Yellow Ltd. A/c	Dr.	14,63,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			10,30,000
To Securities Premium A/c (10%)			1,03,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Orange Ltd. (after absorption)
as at 31st March, 2019

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	41,10,000
	B	Reserves and Surplus	2	4,08,000
2		Non-current liabilities		
	A	Long-term provisions	3	1,85,000
3		Current liabilities		
	A	Trade Payables (4,25,000 + 1,45,000)		5,70,000
		Total		52,73,000
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	4	28,15,000
	B	Intangible assets	5	3,60,000
2		Current assets		
	A	Inventories (6,60,000 + 3,00,000)		9,60,000
	B	Trade receivables	6	8,13,000
	C	Cash and cash equivalents (2,40,000 + 85,000)		3,25,000
		Total		52,73,000

Notes to accounts:

			₹
1	**Share Capital**		
	Equity share capital		
	3,53,000 Equity Shares of ₹ 10 each fully paid (out of above 1,03,000 Equity Shares were issued in consideration other than for cash)		35,30,000
	Preference share capital		
	5,800 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)		5,80,000
	Total		41,10,000

2	**Reserves and Surplus**		
	Securities Premium		1,03,000
	General Reserve		3,05,000
	Total		4,08,000
3	**Long-term provisions**		
	Gratuity fund (1,50,000 + 35,000)		1,85,000
4	**Tangible assets**		
	Buildings (7,90,000 + 3,50,000)		11,40,000
	Machinery (12,50,000 + 4,25,000)		16,75,000
	Total		28,15,000
5	**Intangible assets**		
	Goodwill (2,10,000 + 1,50,000)		3,60,000
6	**Trade receivables** (4,80,000 + 3,33,000)		8,13,000

Working Notes:

Purchase Consideration:	₹
Goodwill	1,50,000
Building	3,50,000
Machinery	4,25,000
Inventory	3,00,000
Trade receivables	3,33,000
Cash at Bank	85,000
	16,43,000
Less: Liabilities:	
Retirement Gratuity	(35,000)
Trade payables	(1,45,000)
Net Assets/ Purchase Consideration	14,63,000
To be satisfied as under:	
10% Preference Shareholders of Yellow Ltd.	3,00,000
Add: 10% Premium	30,000
3,300 9% Preference Shares of Orange Ltd.	3,30,000
Equity Shareholders of Yellow Ltd. to be satisfied by issue of 1,03,000 equity Shares of Orange Ltd. at 10% Premium	11,33,000
Total	14,63,000

Question 5

(a) *From the following information of Royal Bank, compute the amount of provisions to be made in the Profit and Loss account.*

Assets	*₹ (In Lakhs)*
Standard Assets	*25,000*
Sub-Standard Assets (including Unsecured ₹ 8,000 lakhs)	*15,000*
Doubtful Assets	
a. Upto 1 year [Realisable value of Security ₹ 2,200)	*4,500*
b. 1 to 3 years [Realisable value of Security ₹ 1,200)	*3,200*
c. More than 3 years (no Security)	*1,300*
Loss Assets	*530*

(b) *The books of account of Assurance Company provide the following information as on 31st March, 2019.*

Particulars	*Amount (₹)*
Reserve for Unexpired Risks on March 31, 2018	*4,00,000*
Additional Reserve for Unexpired Risks on March 31, 2018	*80,000*
Premiums	*12,50,000*
Claims Paid	*5,90,000*
Outstanding Claims:	
On 31st March, 2018	*55,000*
On 31st March, 2019	*85,000*
Expenses of management	*2,50,000*
Legal Expenses for claims	*30,000*
Interest and Dividend	*74,750*
Income Tax on the above	*7,920*
Profit on sale of Investment	*12,000*
Commission paid	*1,75,000*
Reserve for Unexpired Risks on March 31, 2019	*6,10,000*
Additional Reserve for Unexpired Risks on March 31, 2019	*78,000*

You are required to prepare the Fire Insurance Revenue Account as per the regulations of IRDA for the year ended 31st March, 2019. ***(6+10 = 16 Marks)***

Answer

(a) Statement showing provisions on various performing and non-performing assets

	Amount	*% of*	Provision
	₹ in lakhs	*provision*	₹ in lakhs
Standard	25,000	0.40	100
Sub-standard (Secured)	7,000	15	1,050
(Unsecured)	8,000	25	2,000
Doubtful (less than one year)			
On secured portion	2,200	25	550
On unsecured portion	2,300	100	2,300
Doubtful (more than one year but less than three years)			
On secured portion	1,200	40	480
On unsecured portion	2,000	100	2,000
Doubtful Unsecured (more than three years)	1,300	100	1,300
Loss Assets	530	100	530
Total provision			10,310

(b) Fire Revenue Account for the year ended 31st March, 2019

Particulars	*Schedule*	*Amount (₹)*
Premium earned (net)	1	10,42,000
Profit or loss on sale/redemption of investment*		12,000
Others		–
Interest and dividend* (gross)		74,750
Total (A)		11,28,750
Claims incurred (Net)	2	6,50,000
Commission	3	1,75,000
Operating expenses related to insurance	4	2,50,000
Total (B)		10,75,000
Operating profit/loss from insurance business (B) – (A)		53,750

* *Considered to be linked with fire insurance business specifically, otherwise to be shown in Profit and Loss statement and not in Revenue account.*

Schedule –1 Premium earned (net)

	₹
Premium received	12,50,000

Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(2,08,000)
Total premium earned	10,42,000

Schedule -2 Claims incurred (net)

	₹
Claims paid	5,90,000
Add: Legal expenses regarding claims	30,000
	6,20,000
Add: Claims outstanding as on 31st March, 2019	85,000
	7,05,000
Less: Claims outstanding as on 31st March, 2018	(55,000)
	6,50,000

Schedule -3 Commission

	₹
Commission paid	1,75,000

Schedule-4

	₹
Operating expenses related to Insurance Business:	
Expenses of management	2,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		₹
Reserve for Unexpired Risk as on 31st March, 2019	6,10,000	
Additional Reserve as on 31st March, 2019	78,000	6,88,000
Less: Reserve for Unexpired Risk as on 31st March, 2018	4,00,000	
Additional Reserve as on 31st March, 2018	80,000	(4,80,000)
Transfer to reserve for unexpired risk on 31st March 2019		2,08,000

Note: Interest and dividends are shown at gross value in Revenue account. Amount of ₹ 74,750 given in the question has been considered as the gross amount (before deduction of tax). Income tax on it will not be shown in the Revenue account as it is the part of Profit and Loss account of an insurance company.

Question 6

(a) *Rohit of Delhi has a branch at Nagpur. Following is the information of Nagpur Branch for the year ending 31st March, 2019.*

(1) Goods are invoiced to the branch at cost plus 25%.

(2) Sale Price is cost plus 40%.

(3) Goods sent during the year at invoice price ₹ 13,50,000

(4) Sales during the year ₹ 14,70,000

(5) Branch Expenses ₹ 55,000

(6) Stock as on 1st April, 2018 at Invoice Price ₹ 3,20,000

Calculate the profit earned by the branch during the year and Branch Stock Reserve in respect of unrealized profit.

(b) *Deepa Ltd. has three departments A, B and C, details of which are given below:*

Particulars	*A (₹)*	*B (₹)*	*C (₹)*
Stock as on 1-1-2018	*35,000*	*45,000*	*20,000*
Purchases	*1,80,000*	*1,40,000*	*75,000*
Actual Sales	*1,95,000*	*1,72,000*	*99,000*
Gross Profit on Sales price	*18%*	*25%*	*35%*

During the year 2018, some items were sold at discount and These discounts were reflected in the above sales value. The details are given below:

Particulars	*A (₹)*	*B (₹)*	*C (₹)*
Sales at normal price	*18,000*	*14,000*	*4,500*
Sales at actual price	*14,000*	*13,000*	*2,500*

Compute:

(1) Departmental Results

(2) The value of stock as on 31st December, 2018 **(6+10 =16 Marks)**

Answers

(a) (i) **Calculation of profit earned by the branch**

In the books of Nagpur Branch
Trading Account for the year ended 31st March, 2019

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	3,20,000	By Sales	14,70,000

To Goods received by Head office	13,50,000	By Closing stock (Refer W.N.)	3,57,500
To Expenses	55,000		
To Gross profit	1,02,500		
	18,27,500		18,27,500

(ii) Branch Stock reserve in respect of Unrealized profit

= ₹ 3,57,500 x (25/125) = ₹ 71,500

Working Note:

	₹	
Cost Price	100	
Invoice Price	125	
Sale Price	140	
Calculation of closing stock at invoice price:		
Opening stock at invoice price	3,20,000	
Goods received during the year at invoice price	13,50,000	
	16,70,000	
Less: Cost of goods sold at invoice price	(13,12,500)	[14,70,000 x (125/140)]
Closing stock	3,57,500	

(b) Calculation of Departmental Results:

	A (₹)	B (₹)	C (₹)
Actual Sales	1,95,000	1,72,000	99,000
Add: Discount (Refer W.N.)	4,000	1,000	2,000
Normal sale	1,99,000	1,73,000	1,01,000
Gross profit % on normal sales	18%	25%	35%
Normal gross profit	35,820	43,250	35,350
Less: Discount	(4,000)	(1,000)	(2,000)
Actual gross profit	31,820	42,250	33,350

Computation of value of stock as on 31st Dec. 2018

Departments	A (₹)	B (₹)	C (₹)
Stock (on 1.1. 2018)	35,000	45,000	20,000

Add: Purchases	1,80,000	1,40,000	75,000
	2,15,000	1,85,000	95,000
Add: Actual gross profit	31,820	42,250	33,350
	2,46,820	2,27,250	1,28,350
Less: Actual Sales	(1,95,000)	(1,72,000)	(99,000)
Closing stock as on 31.12.2018 (bal. fig.)	51,820	55,250	29,350

Working Note:

Calculation of discount on sales:

Departments	A (₹)	B (₹)	C (₹)
Sales at normal price	18,000	14,000	4,500
Less: Sales at actual price	(14,000)	(13,000)	(2,500)
	4,000	1,000	2,000

Question 7

*Answer any **four** of the following:*

(a) ABC Limited went into voluntary liquidation. Details are as follows :

1,000 - 10% Preference Shares of ₹ 100 each fully paid up

Class A - 1,200 equity shares of ₹ 100 each (₹ 80 paid up)

Class B - 800 equity shares of ₹ 100 each (₹ 65 paid up)

Assets realized ₹ 3,50,000 and liquidation expenses is ₹ 8,000. Company has secured Bank Loan of ₹ 60,000 and salary of 3 clerks for 3 months at a rate of ₹ 500 per month are outstanding. Creditors are ₹ 70,000.

Calculate amount receivable from / or returnable to equity shareholders.

(b) Opening Balance Sheet of Mr. A is showing the aggregate value of assets, liabilities and equity ₹ 8 lakh, ₹ 3 lakh and ₹ 5 lakh respectively.

During accounting period, Mr. A has the following transactions:

(1) Earned 10% dividend on 2,000 equity shares held of ₹ 100 each

(2) Paid ₹ 50,000 to creditors for settlement of ₹ 70,000

(3) Rent of the premises is outstanding ₹ 10,000

(4) Mr. A withdrew ₹ 9,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

(c) For a banking company, bills for collection was ₹ 21 lakhs as on 1st April, 2018. During 2018-19, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account.

(d) Under what circumstances, an LLP can be wound up by the Tribunal?

(e) Explain in brief Non-Integral Foreign Operation (NFO) and Integral Foreign Operation (IFO) as per AS-11. ***(4 Parts x 4 Marks= 16 Marks)***

Answer

(a) Amount receivable from/returnable to Equity Shareholders

Total equity capital - paid up	₹ 1,48,000
Less: Balance available after payment to unsecured and preference shares	
(3,50,000 — 2,42,500)	₹ (1,07,500)
Loss to be born by 2,000 equity shares	₹ 40,500
Loss per share	₹ 20.25
Hence,	
Amount refunded on ₹ 65 paid share	65 - 20.25 per share = ₹ 44.75
Amount refunded on ₹ 80 paid share	80 - 20.25 per share= ₹ 59.75

Working note:

Liquidator's Statement of Account

	₹			₹
To Assets realized	3,50,000	By Liquidation Expenses		8,000
		By Secured bank loan		60,000
		By Preferential creditors (salary of 3 clerks at ₹ 500 per month for three months)		4,500
		By Unsecured creditors		70,000
		By Preference Shareholders		1,00,000
				2,42,500
		By Equity Shareholders		
		₹ 59.75 on 1,200 shares		71,700
		₹ 44.75 on 800 shares		35,800
	3,50,000			3,50,000

(b) Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	*Assets* *₹ lakh*	–	*Liabilities* *₹ lakh*	=	*Equity* *₹ lakh*
Opening	8.00	–	3.00	=	5.00
(1) Dividend earned	8.20	–	3.00	=	5.20
(2) Settlement of Creditors	7.70	-	2.30	=	5.40
(3) Rent Outstanding	7.70	–	2.40	=	5.30
(4) Drawings	7.61	–	2.40	=	5.21

(c) Bills for Collection (Assets) Account

	₹ in lacs		₹ in lacs
To Balance b/d	21	By Bills for collection	141
To Bills for collection	193.5	By Bills dishonoured	16.5
		By Balance c/d	57
	214.5		214.5

Bills for Collection (Liabilities) Account

	₹ in lacs		₹ in lacs
To Bills for collection	141	By Balance b/d	21
To Bills dishonoured	16.5	By Bills for collection	193.5
To Balance c/d	57		
	214.5		214.5

(d) An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;

- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(e) As per AS 11, Integral foreign operation (IFO) is a foreign operation, the activities of which are an integral part of those of the reporting enterprise. A foreign operation that is integral to the operations of the reporting enterprise carries on its business as if it were an extension of the reporting enterprise's operations. For example, such a foreign operation might only sell goods imported from the reporting enterprise and remit the proceeds to the reporting enterprise. In such cases, a change in the exchange rate between the reporting currency and the currency in the country of foreign operation has an almost immediate effect on the reporting enterprise's cash flow from operations. Therefore, the change in the exchange rate affects the individual monetary items held by the foreign operation rather than the reporting enterprise's net investment in that operation.

In contrast, a non-integral foreign operation (NFO) is a foreign operation that is not an integral operation. NFO accumulates cash and other monetary items, incurs expenses, generates income and perhaps arranges borrowings, all substantially in its local currency. It may also enter into transactions in foreign currencies, including transactions in the reporting currency. When there is a change in the exchange rate between the reporting currency and the local currency, there is little or no direct effect on the present and future cash flows from operations of either the non-integral foreign operation or the reporting enterprise. The change in the exchange rate affects the reporting enterprise's net investment in the non-integral foreign operation rather than the individual monetary and non-monetary items held by the non-integral foreign operation.