## PAPER - 5: ADVANCED ACCOUNTING

Question No. 1 is compulsory.
Candidates are also required to answer any four questions from the remaining five 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) The following data is provided for M/s. Raj Construction Co.
(i) Contract Price - ₹ 85 lakhs
(ii) Materials issued - ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused at the end of the period.
(iii) Labour Expenses for workers engaged at site - ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid)
(iv) Specific Contract Costs - ₹ 5 Lakhs
(v) Sub-Contract Costs for work executed - ₹ 7 Lakhs, Advances paid to sub-contractors - ₹4 Lakhs
(vi) Further Cost estimated to be incurred to complete the contract - ₹ 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.
(b) Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles 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 prospective plan it will reduce the production of passenger cars by $20 \%$ annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment:
(i) If mere gradual phasing out in itself can be considered as a 'discontinuing operation' within the meaning of AS-24.
(ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS-24?
(iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner?
(c) Surya Limited follows the financial year from April to March. It has provided the following information.
(i) A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of ₹ 5 lakhs.
(ii) Company sends a proposal to sell an immovable property for ₹ 45 lakhs in March 2021. The book value of the property is ₹ 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.
(iii) The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was ₹ 50 lakhs.
(iv) Theft of cash amounting to ₹ 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.
Keeping in view the provisions of AS-4, you are required to state with reasons whether the above events are to be treated as Contingencies, Adjusting Events or Non-Adjusting Events occurring after Balance Sheet date.
(d) (i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited.
(ii) Shri Bhanu a relative of key management personnel received remuneration of ₹ $3,50,000$ for his services in the company for the period from ${ }^{1 \text { st }}$ April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.
You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18-Related Party Disclosures.
(4 Parts x 5 Marks $=20$ Marks)

## Answer

(a) Computation of contract cost

|  | ₹ Lakh | ₹ Lakh |
| :--- | ---: | ---: |
| Material cost incurred on the contract (net of closing stock) | $21-4$ | 17 |
| Add: Labour cost incurred on the contract (including |  | 16 |
| outstanding amount) |  |  |
| Specified contract cost | given | 5 |
| Sub-contract cost (advances should not be considered) |  | $\underline{7}$ |


| Cost incurred (till date) |  | 45 |
| :--- | ---: | ---: |
| Add: further cost to be incurred |  | $\underline{35}$ |
| Total contract cost | $\underline{80}$ |  |

Percentage of completion $=$ Cost incurred till date/Estimated total cost

$$
\begin{aligned}
& =₹ 45,00,000 / ₹ 80,00,000 \\
& =56.25 \%
\end{aligned}
$$

## Contract revenue and costs to be recognized

Contract revenue (₹ $85,00,000 \times 56.25 \%$ ) = ₹ $47,81,250$
Contract costs = ₹ $45,00,000$
(b) (i) As per AS 24, a discontinuing operation is a component of an enterprise:
(a) that the enterprise, pursuant to a single plan, is:
(i) disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders; or
(ii) disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually; or
(iii) terminating through abandonment; and
(b) that represents a separate major line of business or geographical area of operations; and
(c) that can be distinguished operationally and for financial reporting purposes.

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:
(a) Gradual or evolutionary phasing out of a product line or class of service;
(b) Shifting of some production or marketing activities for a particular line of business from one location to another; and
(c) Closing of a facility to achieve productivity improvements or other cost savings.

In this case, it cannot be considered as Discontinuing Operation as per AS-24 as the company's strategic plan 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.
(ii) No, the resolution is silent about stoppage of the car segment in definite time period. Though, sale of some assets and some transfer proposal were passed through a resolution to the new factory, but the closure road map and new segment starting roadmap are missing.
Hence, AS 24 will not be applicable and it cannot be considered as discontinuing operation.
(iii) Yes, phased and time bound program resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and will constitute a clear roadmap.
Hence, this action will attract compliance of AS 24 and it will be considered as Discontinuing Operation as per AS-24.
(c) (i) Suit filed against the company is a contingent liability but it was not existing as on date of balance sheet date as the suit was filed on 5th April after the balance sheet date. As per AS 4, 'Contingencies' is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. However, it may be disclosed with the nature of contingency, being a contingent liability.
This event does not pertain to conditions on the balance sheet date. Hence, it will have no effect on financial statements and will be a non-adjusting event.
(ii) In this case, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2021. There was just a proposal before 31st March, 2021 and hence sale cannot be shown in the financial statements for the year ended 31st March, 2021.
Sale of immovable property is an event occurring after the balance sheet date and is a non-adjusting event.
(iii) In the given case, terms and conditions for acquisition of business were finalized before the balance sheet date and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2021.

Hence, it is an adjusting event and necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended $31^{\text {st }}$ March 2021.
(iv) Only those events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.
In the given case, as the theft of cash was detected after approval of financial statements, no adjustment is required. Hence it is non-adjusting event.
(d) (i) Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

In the given case, in the absence of share ownership, Mr. Happy would not be considered to exercise significant influence on Khushi Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. Happy does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.
(ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021 as he received remuneration for his services in the company for the period from $1^{\text {st }}$ April,2020 to $30^{\text {th }}$ June,2020.

## Question 2

(a) A company provides the following 2 possible Capital Structures as on $31{ }^{\text {st }}$ March, 2021:

| Particulars | Situation 1 <br> ( ₹) | Situation 2 <br> ( ₹) |
| :--- | ---: | ---: |
| Equity Share Capital (Shares of ₹10 each, fully paid up) | $30,00,000$ | $30,00,000$ |
| Reserves \& Surplus: |  |  |
| General Reserve | $12,00,000$ | $12,00,000$ |
| Securities Premium | $6,00,000$ | $6,00,000$ |
| Profit \& Loss | $2,10,000$ | $2,10,000$ |
| Statutory Reserve | $4,20,000$ | $4,20,000$ |
| Loan Funds | $25,00,000$ | $1,20,00,000$ |

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share.
You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.
(15 Marks)
(b) (i) Explain the meaning of Equity Shares with Differential Rights.

Can Preference Shares be also issued with differential rights ?
(ii) In Jugnu Limited A, B, C and D hold equity share capital in the proportion of 30:30:30: 10 and $M, N, O$ and $P$ hold preference share capital in proportion of 40:20:30:10.
You are required to calculate their voting rights in case of resolution of winding up of the company, if the paid up Equity Share Capital of the company is ₹ 100 Lakhs and Preference Share Capital is ₹ 50 Lakhs.
(5 Marks)

## Answer

(a) Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

| Particulars | When loan fund is |  |
| :--- | ---: | ---: |
|  | $₹ 25,00,000$ | $₹ 1,20,00,000$ |
| Shares Outstanding Test (W.N.1) | 75,000 | 75,000 |
| Resources Test (W.N.2) | 41,750 | 41,750 |
| Debt Equity Ratio Test (W.N.3) | 94,000 | Nil |
| Maximum number of shares that can be | 41,750 | Nil |
| bought back [least of the above] |  |  |

Journal Entries for the Buy-Back (applicable only when loan fund is ₹ $\mathbf{2 5 , 0 0 , 0 0 0}$ )


| (c) | General Reserve* <br> To Capital redemption reserve account | Dr. | $4,17,500$ |  |
| :--- | :---: | :---: | :---: | :---: |
| (Being transfer of free reserves to capital <br> redemption reserve to the extent of nominal <br> value of share capital bought back out of <br> redeemed through free reserves) | $4,17,500$ |  |  |  |

*Profit and Loss account balance amounting ₹ 2,10,000 may also be used and General Reserve may be debited for the balance amount.

## Working Notes:

1. Shares Outstanding Test

| Particulars | (Shares in crores) |
| :--- | ---: |
| Number of shares outstanding | $3,00,000$ |
| $25 \%$ of the shares outstanding | 75,000 |

2. Resources Test

| Particulars |  |
| :--- | ---: |
| Paid up capital ( $₹$ ) | $30,00,000$ |
| Free reserves ( $₹$ ) $(12,00,000+6,00,000+2,10,000)$ | $\underline{20,10,000}$ |
| Shareholders' funds (₹) | $\underline{50,10,000}$ |
| $25 \%$ of Shareholders fund ( $₹)$ | $₹ 12,52,500$ |
| Buy-back price per share | $₹ 30$ |
| Number of shares that can be bought back | 41,750 shares |

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

|  | Particulars | When loan fund is |  |
| :--- | :--- | ---: | ---: |
| (a) | Loan funds (₹) | $₹ 25,00,000$ | $₹ 1,20,00,000$ |
| (b) | Minimum equity to be maintained after | $12,50,000$ | $60,00,000$ |
|  | buy-back in the ratio of 2:1 |  |  |
| (c) | (₹) (a/2) | Present equity shareholders fund (₹) | $50,10,000$ |

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method
Suppose amount transferred to CRR account is ' $x$ ' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained $=$ Maximum Permitted Buy-Back

$$
\begin{align*}
& =(50,10,000-x)-12,50,000=y \\
& =37,60,000-x=y \tag{1}
\end{align*}
$$

## Equation 2: Maximum Permitted Buy-Back $X$ Nominal Value Per Share/Offer Price Per Share <br> ```y/30 x 10 = x```

or
$3 \mathrm{x}=\mathrm{y}$
by solving the above two equations we get

$$
\begin{aligned}
& x=₹ 9,40,000 \text { and } \\
& y=₹ 28,20,000
\end{aligned}
$$

In situation 2, first equation will be negative. Buy back not possible in this situation.
(b) (i) As per the Companies Act 2013, companies can issue equity shares with differential rights subject to the fulfilment of certain conditions. Companies (Share Capital and Debentures) Rules, 2014 deal with equity shares with differential rights. Differentiation can be done by giving a superior dividend / Superior voting right / diluted voting right to a class of equity shareholders.
Preference shares are not issued with differential rights. It is only the equity shares, which are issued.
(ii) In the given case, the relative weight 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

|  |  | Relative weights |
| :--- | :--- | :--- | | Voting Power |
| :--- |
| A |

## Question 3

(a) A Partnership firm C \& Co. consists of partners P and Q sharing Profits and Losses in the ratio of 4:1. The firm H \& Co. consists of Partners $Q$ and $R$ sharing Profits and Losses in the ratio of 3:2. On 31st March, 2021, it was decided to amalgamate both the firms and form a new firm CH \& Co., wherein P, Q, R would be partners sharing Profits and Losses in the ratio of 6:3:1. The summarized Balance Sheets of both the firms as on 31st March, 2021 were as follows:

| Labilities | C \& Co. <br> (₹ in 000) | H \& Co. <br> (₹ in 000) | Assets | C \& Co. <br> (₹ in 000) | H \& Co. <br> (₹ in 000) |
| :--- | ---: | ---: | :--- | ---: | ---: |
| Capital |  |  | Cash in hand/bank | 160 | 120 |
| $P$ | 600 | - | Debtors | 240 | 320 |
| Q | 400 | 300 | Stock | 200 | 80 |
| $R$ | - | 200 | Vehicles | - | 350 |
| Reserve | 200 | 150 | Machinery | 480 | - |
| Creditors | 480 | 220 | Building | 600 | - |
| Total | 1,680 | 870 | Total | 1,680 | 870 |

The following were the terms of amalgamation:
(i) Goodwill of C \& Co. was valued at $₹ 2,80,000$ and the $G o o d w i l l$ of $H$ \& Co. was valued at $₹ 1,60,000$. Goodwill account is not to be opened in the books of the new firm but to be adjusted through the Capital accounts of the partners.
(ii) Building, Machinery and Vehicles are to be taken over at ₹ $8,00,000$, ₹ $4,00,000$ and $₹ 3,00,000$, respectively.
(iii) Provision for doubtful debts at ₹ 20,000 in respect of $C$ \& Co. and ₹ 10,000 in respect of $H \& C o$. are to be provided.

You are required to:
(i) Show how the Goodwill value will be adjusted amongst the partners.
(ii) Prepare the Balance Sheet of CH \& Co as at 31st March, 2021 by keeping Partners' capitals in their profit sharing ratio taking capital of ' $Q$ ' as the basis. The excess or deficiency to be kept in the respective Partner's Current Account.
(15 Marks)
(b) Siddharth Auto Financiers Limited is a NBFC providing Finance for purchasing of Auto Rickshaws. The following information is extracted from its books for the year 31st March, 2021:

| Interest Overdue but recognised in Profit and Loss |  |  |
| :--- | ---: | ---: | ---: |
| Account | Net Book Value of Assets <br> Outstanding |  |
| Period Overdue | Interest Amount (₹ In Crore) | (₹ In crores) |
| Up to 12 Months | 750.00 | 30,000 |
| For 24 Months | 200.00 | 4,000 |
| For 30 Months | 200.00 | 3,750 |
| For 45 Months | 250.00 | 3,000 |
| For 60 Months | 500.00 | 10,000 |

You are required to calculate the amount of provision io be made.
(5 Marks)

## Answer

(a) (i) Adjustment for raising and writing off of goodwill

|  | Raised in old profit-sharing ratio |  | Total | Written off in new ratio | Difference |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | C \& Co. | H \& Co. |  |  |  |
|  | $\begin{array}{r} 4: 1 \\ ₹ \end{array}$ | $\begin{gathered} \hline \text { 3:2 } \\ ₹ \end{gathered}$ | ₹ | $\begin{array}{r} 6: 3: 1 \\ ₹ \end{array}$ | ₹ |
| $\begin{array}{\|l\|} \hline P \\ Q \\ R \end{array}$ | $\begin{array}{r} 2,24,000 \\ 56,000 \\ \hline---1 \end{array}$ | $\begin{array}{r} 96,000 \\ 64,000 \\ \hline 1,60,000 \end{array}$ | $\begin{array}{r} 2,24,000 \mathrm{Cr} \\ 1,52,000 \mathrm{Cr} \\ 64,000 \mathrm{Cr} . \\ 4,40,000 \end{array}$ | $\begin{array}{\|r} 2,64,000 \mathrm{Dr} \\ 1,32,000 \mathrm{Dr} \\ \underline{44,000 \mathrm{Dr} .} \\ 4,40,000 \end{array}$ | $\begin{aligned} & 40,000 \mathrm{Dr} \\ & 20,000 \mathrm{Cr} \\ & 20,000 \mathrm{Cr} \\ & \frac{\mathrm{Nil}}{} \end{aligned}$ |

(ii)

Balance Sheet of CH \& Co. (New firm) as on 31.3.2021

| Liabilities | ₹ | Assets | $₹$ |
| :--- | ---: | :--- | ---: |
| Capital Accounts: |  | Vehicle | $3,00,000$ |
| P | $16,68,000$ | Machinery | $4,00,000$ |
| Q | $8,34,000$ | Building | $8,00,000$ |
| R | $2,78,000$ | Stock | $2,80,000$ |
| Creditors | $7,00,000$ | Debtors | $5,30,000$ |
|  |  | Cash \& Bank | $2,80,000$ |


|  |  | Current Accounts: |
| ---: | ---: | :---: | ---: |
| P | $8,68,000$ |  |
|  | $R$ | 22,000 |
|  |  | $34,80,000$ |

## Working Notes:

1. Balance of Capital Accounts at the time of amalgamation of firms

C \& Co.

| Particulars | P's Capital ( $₹$ ) | Q's Capital ( $₹$ ) |
| :--- | ---: | ---: |
| C \& Co. Profit and loss sharing ratio 4:1 |  |  |
| Balance as per Balance Sheet | $6,00,000$ | $4,00,000$ |
| Add: Reserves | $1,60,000$ | 40,000 |
| Revaluation profit (Building)* | $1,60,000$ | 40,000 |
| Less: Revaluation loss (Machinery) | $(64,000)$ | $(16,000)$ |
| Provision for doubtful debt | $(16,000)$ | $(4,000)$ |
|  | $8,40,000$ | $4,60,000$ |
| H \& Co. |  |  |
| Particulars | Q's Capital (₹) | R's Capital (₹) |
| H \& Co. Profit and loss sharing ratio 3:2 |  |  |
| Balance as per Balance sheet | $3,00,000$ | $2,00,000$ |
| Add: Reserves | 90,000 | 60,000 |
| Less: Revaluation (vehicle) | $(30,000)$ | $(20,000)$ |
| Provision for doubtful debts | $(6,000)$ | $(4,000)$ |
|  | $3,54,000$ | $2,36,000$ |

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2021

| Particulars | $P$ | Q | $R$ |
| :---: | :---: | :---: | :---: |
|  | ₹ | ₹ | ₹ |
| Balance b/d: $\begin{array}{ll}\text { C \& Co. } \\ & \text { H \& Co. }\end{array}$ | 8,40,000 | 4,60,000 | -- |
|  | --- | 3,54,000 | 2,36,000 |
|  | 8,40,000 | 8,14,000 | 2,36,000 |
| Adjustment for goodwill | $(40,000)$ | 20,000 | 20,000 |
|  | 8,00,000 | 8,34,000 | 2,56,000 |

[^0]| Total capital ₹ $27,80,000$ (Q's capital i.e. |  |  |  |
| :--- | ---: | ---: | ---: |
| ₹ $8,34,000 \times 10 / 3$ ) to be contributed in |  |  |  |
| 6:3:1 ratio. | $\frac{16,68,000}{}$ | $\frac{8,34,000}{---}$ | $\frac{2,78,000}{22,000}$ |
| Deficiency Transferred to Current Account | $8,68,000$ | -1 |  |

(b) On the basis of the information, in respect of financed assets, provision shall be made as under:

| (₹ in crore) |  |  |  |
| :---: | :---: | :---: | :---: |
| (a) Where hire charges are overdue upto 12 months |  | Nil |  |
| (b) | Where hire charges are overdue for more than 12 months but upto 24 months | $10 \%$ of the net book value $10 \% \times 4,000$ | 400 |
| (c) | Where hire charges are overdue for more than 24 months but upto 36 months | 40 percent of the net book value $40 \% \times 3,750$ | 1,500 |
| (d) | Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months | 70 percent of the net book value $70 \% \times 3,000$ | 2,100 |
| ) | Where hire charges or lease rentals are overdue for more than 48 months | $100 \%$ of net book value $(100 \% \text { x } 100)$ | 10,000 |
|  |  | Total | 14,000 |

## Question 4

(a) The Trial Balances of $X$ Limited and $Y$ Limited as on $31^{\text {st }}$ March, 2021 were as under:

|  | $\begin{aligned} & \hline \text { X Limited } \\ & (F \ln 000) \end{aligned}$ |  | $\begin{aligned} & Y \text { Limited } \\ & \text { (₹ } \ln 000 \text { ) } \end{aligned}$ |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Dr. | Cr. | Dr. | Cr. |
| Equity Share capital (Share of ₹ 100 each) |  | 2,000 |  | 400 |
| 7\% Preference share capital |  | - |  | 400 |
| Reserves |  | 600 |  | 200 |
| 6\% Debentures |  | 400 |  | 400 |
| Trade Receivables/Trade Payables | 160 | 180 | 100 | 120 |
| Profit \& Loss A/c balance |  | 40 |  | 30 |
| Purchases /Sales | 1,000 | 1,800 | 1,200 | 1,900 |
| Wages and Salaries | 200 |  | 300 |  |


| Debenture Interest | 24 |  | 24 |  |
| :--- | ---: | ---: | ---: | ---: |
| General Expenses | 160 |  | 120 |  |
| Preference share dividend up to 30.09.2020 |  | 7 | 14 |  |
| Inventory (as on 31.03.2021) | 200 |  | 100 |  |
| Cash at Bank | 27 |  | 12 |  |
| Investment in Y Limited | 1,056 |  | - |  |
| Fixed Assets | 2,200 |  | 1,580 |  |
| Total | 5,027 | 5,027 | 3,450 | 3,450 |

Investment in Y Limited was acquired on 1st July, 2020 and consisted of $80 \%$ of Equity Share Capital and 50\% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus $25 \%$, the total invoice value of such goods being ₹ $1,20,000$, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10\% in X Limited and @ $15 \%$ in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.
(15 Marks)
(b) Long Limited acquired $60 \%$ stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit \& Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:
(i) On consolidation of Balance Sheet.
(ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.
(iii) If the consideration paid for acquiring the $60 \%$ stake was ₹ 92 lakhs.

## Answer

(a) Consolidated Statement of Profit \& Loss Account of $X$ Ltd. and $Y$ Ltd. for the year ended 31st March, 2021

| Particulars | Note No. | $₹$ |  |
| :--- | :--- | :---: | ---: |
| I. | Revenue from operations | 1 | $\underline{35,80,000}$ |
| II. | Total revenue |  | $\underline{35,80,000}$ |


|  |  |  |
| :---: | :---: | :---: |
| III. Expenses |  |  |
| Cost of Material purchased/Consumed | 2 | 20,80,000 |
| Changes of Inventories of finished goods |  |  |
| Employee benefit expense | 3 | 5,00,000 |
| Finance cost | 4 | 48,000 |
| Depreciation and amortization expense | 5 | 4,57,000 |
| Other expenses | 6 | 2,80,000 |
| Total expenses |  | 33,65,000 |
| IV. Profit before Tax (II-III) |  | 2,15,000 |
| Profit transferred to Consolidated Balance Sheet |  |  |
| Profit After Tax |  | 2,15,000 |
| Preference dividend | 7,000 |  |
| Preference dividend payable | 7,000 | $(14,000)$ |
|  |  | 2,01,000 |
| Share in pre-acquisition loss (WN 3) |  | 1,800 |
| Share of Minority interest in losses (WN 1) |  | 1,800 |
| Less: Investment Account- dividend for 3 months (prior to acquisition) |  | $(3,500)$ |
| Inventory reserve (WN 2) |  | $(6,000)$ |
| Profit to be transferred to consolidated balance sheet |  | 1,95,100 |

## Notes to Accounts

|  |  | $₹$ | $₹$ |
| :--- | :--- | ---: | ---: |
| 1 | Revenue from Operations |  |  |
|  | X Ltd. | $18,00,000$ |  |
|  | Y Ltd. | $\underline{19,00,000}$ |  |
|  | Total | $37,00,000$ |  |
| 2 | Less: Intra-group sales (X sold to Y) | $\underline{(1,20,000)}$ | $35,80,000$ |
| Cost of Materials Purchased/Consumed |  |  |  |
|  | XLtd. | $10,00,000$ |  |
|  | Y Ltd. | $\underline{12,00,000}$ |  |
|  | Total | $22,00,000$ |  |
|  | Less: Intra-group sales (X sold to Y) | $\underline{(1,20,000)}$ | $20,80,000$ |
|  | Employee benefit and expenses |  |  |
|  | Wages and salaries |  |  |


|  | H Ltd. | $2,00,000$ |  |
| :--- | :--- | ---: | ---: |
| S Ltd. | $\underline{3,00,000}$ | $5,00,000$ |  |
| 5 | Finance cost |  |  |
|  | Interest |  |  |
|  | H Ltd. | 24,000 |  |
| S Ltd. | $\underline{24,000}$ | 48,000 |  |
|  | Depreciation |  |  |
|  | H Ltd. | $2,20,000$ |  |
| S Ltd. | Other expenses | $\underline{2,37,000}$ | $4,57,000$ |
|  | H Ltd. | $1,60,000$ |  |
|  | S Ltd. | $\underline{1,20,000}$ | $2,80,000$ |

## Working Notes:

1. Profit of Subsidiary

| Revenue from Operations |  | $19,00,000$ |
| :--- | ---: | ---: |
| Less: Expenses |  |  |
| $\quad$ Cost of Material purchased/Consumed | $12,00,000$ |  |
| $\quad$ Changes of Inventories of finished goods | - |  |
| $\quad$ Employee benefit expense | $24,00,000$ |  |
| $\quad$ Finance cost | $2,37,000$ |  |
| $\quad$ Depreciation and amortization expense | $1,20,000$ |  |
| $\quad$ Other expenses |  | $\underline{(18,81,000)}$ |
| $\quad$ Total expenses | 14,000 | $\underline{19,000}$ |
| Profit Before Tax | $\underline{14,000}$ | $\underline{(28,000)}$ |
| Less: Preference Dividend |  | $\underline{(9,000)}$ |
| Less: Preference Dividend Payable |  | $(1,800)$ |

2. Inventory reserve $=\left[\frac{120,000}{4} \times \frac{25}{125}\right]=₹ 6,000$
3. Pre-acquisition loss $=80 \%$ of 3 month's profit up to $30^{\text {th }}$ June, 2020 i.e. $80 \%$ of $1 / 4$ of loss ₹ 9,000 . Hence, pre-acquisition loss $=₹ 1,800$
4. Investment account includes Preference dividend for 3 months prior to acquisition i.e. ₹ $4,00,000 \times 50 \% \times 7 \% \times 1 / 4=₹ 3,500$
(b)

|  | $₹$ |
| :--- | ---: |
| $60 \%$ of the Equity Share Capital ₹ 100 Lakhs | 60 |
| $60 \%$ of Accumulated Reserve ₹ 70 Lakhs (40+30) Lakhs | $\underline{42}$ |
| Book value of shares of Short Ltd. | $\underline{102}$ |

(i) Goodwill / Capital Reserve computation on consolidation of balance sheet

Long Ltd. paid a positive differential of ₹ 10 Lakhs (112-102). This differential ₹ 10 Lakhs is called goodwill and is shown in the balance sheet under the head intangibles.
(ii) If Long Ltd. showed the investment in Short Ltd. at carrying amount of ₹ 104 Lakhs, then the goodwill will be ₹ 2 Lakhs.
(iii) If the consideration paid is ₹ 92 lakhs, then there would have been capital reserve amounting ₹ 10 Lakhs (102-92).

## Question 5

(a) The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

| Particulars | Notes | Black Limited $\text { (₹ } \ln 000)$ | White Limited $\text { (₹ } \ln 000)$ |
| :---: | :---: | :---: | :---: |
| Equity and Liabilities <br> Shareholders' Funds |  |  |  |
|  |  |  |  |
| (a) Share Capital | 1 | 6,000 | 3,600 |
| (b) Reserves and Surplus | 2 | 1,080 | 660 |
| Current Liabilities |  |  |  |
| Trade payables |  | 600 | 360 |
| Total |  | 7,680 | 4,620 |
| Assets |  |  |  |
| Non-current assets |  |  |  |
| Property, Plant and Equipment |  | 3,600 | 2,400 |
| Current assets |  |  |  |
| (a) Inventories |  | 960 | 720 |
| (b) Trade receivables |  | 1,680 | 1,080 |
| (c) Cash and Cash Equivalents |  | 1,440 | 420 |
| Total |  | 7,680 | 4,620 |


| Note <br> No. | Particulars | Black Limited <br> $(₹$ in 000) | White Limited <br> (₹ in 000) |
| :--- | :--- | ---: | ---: |
| 1. | Share Capital | 6,000 | 3,600 |
|  | Equity Shares of ₹ 100 each |  |  |
| 2. | Reserves and Surplus |  |  |
|  | General Reserve | 360 | 180 |
|  | Profit and Loss Account | 720 | 480 |
|  | Total | 1,080 | 660 |
|  |  |  |  |

Black Limited takes over White Limited on 1st July, 2020.
No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ $10 \%$ p.a. on Property Plant and Equipment, during April-June, 2020.
Estimated profit of Black Limited during these 3 months was ₹ $4,80,000$ after charging proportionate depreciation @ 10\% p.a. on Property Plant and Equipment.
Both the companies have declared and paid 10\% dividend within this 3 months' period.
Goodwill of White Limited is valued at ₹ $2,40,000$ and Property Plant and Equipment are valued at ₹ $1,20,000$ above the depreciated book value on the date of takeover.
Purchase consideration is to be satisfied by Black Limited by issuing shares at par.
Ignore income tax. You are required to:
(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.
(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020
(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.
(10 Marks)
(b) The following are the figures extracted from the books of New Bank Limited as on 31.03.2021:

|  | Figure in $₹$ |
| :--- | ---: |
| Interest and Discount received | $48,11,200$ |
| Interest paid on Deposits | $22,95,920$ |
| Salaries and allowances | $8,40,510$ |
| Directors fees and allowances | 45,000 |
| Issued and subscribed capital | $16,00,000$ |


| Commission, Exchange and Brokerage received | $1,45,000$ |
| :--- | ---: |
| Postage and Telegrams | 60,000 |
| Statutory Reserve Fund | $8,00,000$ |
| Interest on cash credit | $2,65,000$ |
| Profit on sale of Investments | $1,15,800$ |
| Depreciation on Bank's Property | 40,000 |
| Interest on Overdraft | $1,20,000$ |
| Rent Received | 65,000 |
| Legal Expenses | 21,000 |
| Auditors Fees | 5,000 |
| Statutory Expenses | 38,000 |

The following information is also given:
(i) A customer to whom a sum of ₹ 5 Lakhs was advanced has become insolvent and it is expected that only $50 \%$ can be recovered from his estate.
(ii) Make necessary provisions on Risk Assets:

| Standard (excluding above ₹5,00,000) | $10,00,000$ |
| :--- | ---: |
| Sub-Standard (fully secured) | $8,20,000$ |
| Doubtful assets covered by security for 1 year | 40,000 |
| Loss assets | $1,00,000$ |

(iii) Provide ₹ $6,50,000$ for Income Tax.
(iv) The directors desire to declare 10\% dividend.
(v) $25 \%$ of profit is to be transferred to Reserve fund.
(vi) Rebate on Bills discounted on 31.03 .2020 was $₹ 20,000$ and $₹ 15,000$ on 31.03.2021.

You are required to prepare Profit \& Loss A/c of New Bank Limited for the year ended 31.03.2021.
(10 Marks)

## Answer

(a) (i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

| White Ltd. | $₹$ | $₹$ |
| :--- | ---: | ---: |
| Goodwill |  | $2,40,000$ |
| Property, plant and equipment | $24,00,000$ |  |
| Less: Depreciation $[24,00,000 \times 10 \% \times 3 / 12]$ | $\underline{(60,000)}$ |  |
|  | $23,40,000$ |  |
| Add: Appreciation | $\underline{1,20,000}$ | $24,60,000$ |


| Inventory |  |  | 7,20,000 |
| :---: | :---: | :---: | :---: |
| Trade receivables |  |  | 10,80,000 |
| Cash and Bank balances |  | 4,20,000 |  |
| Add: Profit after depreciation | 2,40,000 |  |  |
| Add: Depreciation (non-cash) | 60,000 | 3,00,000 |  |
| Less: Dividend [ $36,00,000 \times 10 \%$ ] |  | (3,60,000) | 3,60,000 |
|  |  |  | 48,60,000 |
| Less: Trade payables |  |  | $(3,60,000)$ |
| Purchase Consideration |  |  | 45,00,000 |
| Number of shares to be issued by Black Ltd. @ ₹ 100 each |  |  | 45,000 shares |

(ii) Calculation of Net Current Assets as on 01.07.2020

|  |  | Black Ltd. |  | White Ltd. |
| :--- | ---: | ---: | ---: | ---: |
|  |  | $F$ | $F$ |  |
| Current assets: |  |  |  |  |
| $\quad$ Inventory |  | $9,60,000$ |  | $7,20,000$ |
| Trade receivables |  | $16,80,000$ |  | $10,80,000$ |
| Cash and Bank | $14,40,000$ |  | $4,20,000$ |  |
| Less: Dividend | $(6,00,000)$ |  | $(3,60,000)$ |  |
| Add: Profit after depreciation | $4,80,000$ |  | $2,40,000$ |  |
| Add: Depreciation being non |  |  |  |  |
| cash | $\underline{90,000}$ | $\underline{14,10,000}$ | $\underline{60,000}$ | $\underline{3,60,000}$ |
|  |  | $40,50,000$ |  | $21,60,000$ |
| Less: Trade payables |  | $\underline{(6,00,000)}$ |  | $\underline{(3,60,000)}$ |

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07 .2020

|  | $₹$ |
| :--- | ---: |
| P \& L A/c balance as on 31.03.2020 | $7,20,000$ |
| Less: Dividend paid | $\underline{(6,00,000)}$ |
|  | $1,20,000$ |
| Add: Estimated profit for 3 months after charging depreciation | $\underline{4,80,000}$ |

(iv) Property, plant and equipment as on 01.07.2020
$\left.\begin{array}{|l|r|r|}\hline \text { Property, plant and equipment of Black Ltd. as on } & & 36,00,000 \\ 31.03 .2020\end{array}\right)$
(b)

## New Bank Limited

Profit and Loss Account for the year ended 31 ${ }^{\text {st }}$ March, 2021

|  |  | Schedule | Year ended 31.03.2021 |
| :---: | :---: | :---: | :---: |
|  |  |  | ₹ |
| I. | Income: |  |  |
|  | Interest earned | 13 | 52,01,200 |
|  | Other income | 14 | 3,25,800 |
|  | Total |  | 55,27,000 |
| II. | Expenditure |  |  |
|  | Interest expended | 15 | 22,95,920 |
|  | Operating expenses | 16 | 10,49,510 |
|  | Provisions and contingencies $(6,50,000+2,37,000+2,50,000)$ |  | 11,37,000 |
|  | Total |  | 44,82,430 |
| III. | Profits/Losses |  |  |
|  | Net profit for the year |  | 10,44,570 |
|  | Profit brought forward |  | Nil |
|  |  |  | 10,44,570 |


| IV. | Appropriations |  |
| :--- | :--- | ---: |
|  | Transfer to statutory reserve $(25 \%$ of $10,44,570)$ | $2,61,143$ |
|  | Proposed dividend |  |
|  | Balance carried over to balance sheet | $\underline{6,23,000}$ |
|  |  | $\underline{10,44,570}$ |

Note: Profit \& Loss Account balance of ₹ $6,23,427$ will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

| Year ended 31.3.2021 ( ₹) |  |  |
| :--- | :--- | ---: |
|  | Schedule 13 - Interest Earned |  |
|  | Interest/discount on advances/bills (Refer W.N.) | $48,16,200$ |
|  | Interest on cash credit* | $2,65,000$ |
|  | Interest on overdraft * | $\underline{1,20,000}$ |
|  |  | $\underline{52,01,200}$ |
| I. | Schedule 14 - Other Income | Commission, exchange and brokerage |
| II. | Profit on sale of investment | $1,45,000$ |
| III. | Rent received | $1,15,800$ |
|  |  | $\underline{65,000}$ |
|  | Schedule 15 - Interest Expended | $\underline{3,25,800}$ |
| I. | Interests paid on deposits | $\underline{22,95,920}$ |
|  |  | $\underline{22,95,920}$ |
|  | Schedule 16 - Operating Expenses |  |
| I. | Payment to and provisions for employees (salaries \& allowances) | $8,40,510$ |
| II. | Depreciation on assets | 40,000 |
| III. | Director's fee, allowances and expenses | 45,000 |
| IV. | Auditor's fee | 5,000 |
| V. | Statutory (law) expenses | 38,000 |
| VI. | Postage and telegrams | 60,000 |
| VII. | Legal expenses | $\underline{21,000}$ |
|  |  | $\underline{10,49,510}$ |

* Considered to be earned.


## Working Notes:

1. 

|  | $₹$ |
| :--- | ---: |
| Interest and discount received | $48,11,200$ |
| Add: Rebate on bills discounted on 31.3. 2020 | 20,000 |
| Less: Rebate on bills discounted on 31.3. 2021 | $\underline{(15,000)}$ |$\underline{\underline{48,16,200}}$|  |
| :--- |

2. 

| Classification of Assets | Amount of Advances | \% age of <br> provision | Amount of <br> provision |
| :--- | ---: | ---: | ---: |
| Standard assets | $10,00,000$ | 0.40 | 4,000 |
| Sub-standard assets | $8,20,000$ | 15 | $1,23,000$ |
| Doubtful assets: |  |  |  |
| For one year (secured) | 40,000 | 25 | 10,000 |
| Loss assets | $1,00,000$ | 100 | $\underline{1,00,000}$ |
| Total provision required |  |  | $\underline{2,37,000}$ |

## Question 6

Answer any four of the following:
(a) The following particulars are stated in the Balance Sheet of Deep Limited as on 31st March, 2020:

|  | (₹/n Lakhs) |
| :--- | ---: |
| Deferred Tax Liability (Cr.) | 28.00 |
| Deferred Tax Assets (Dr.) | 14.00 |

The following transactions were reported during the year 2020-2021:
(i) Depreciation as per books was ₹ 70 Lakhs whereas Depreciation for Tax purposes was ₹ 42 Lakhs. There were no additions to Fixed Assets during the year.
(ii) Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were ₹ 14 Lakhs.
(iii) Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for the year 2020-21 (1/10th of ₹ 70.00 lakhs incurred in 2019-20).
(iv) Repairs to Plant and Machinery were made during the year for ₹ 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, the entire expenditure was allowed for income-tax purposes in the year 2020-21.
Tax Rate to be taken at $40 \%$.
You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.
(b) The different categories of shareholders of Earth Limited, who went into liquidation on ${ }^{\text {stt }}$ April, 2021 are as follows:
(i) 32,000 Equity shares of $₹ 100$ each, ₹ 80 paid up
(ii) 48,000 Equity shares of $₹ 100$ each, ₹ 35 paid up
(iii) $12,80,000$ Equity shares of ₹ 10 each, ₹ 7 paid up.

You are required to distribute the surplus money among different categories of shareholders, if the surplus available with Liquidator after discharging all the liabilities is $₹ 32,00,000$.
(c) A Limited sells goods with unlimited right of return from its customers.

The following pattern has been observed in the Return of Sales:

| Time frame of Return from date of purchase | \% of Cumulative Sales |
| :--- | :---: |
| Between 0-1 month | $6 \%$ |
| Between 1-2 months | $7 \%$ |
| Between 2-3 months | $8 \%$ |

The Company has made Sales of ₹ 36 Lakhs in the month of January, ₹ 48 Lakhs in the month of February and of ₹ 60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹ 400 Lakhs and the Cost of Sales was ₹ 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized for the year ended 31st March.
(d) At the beginning of the year 1, Harmony Limited grants 600 options to each of its 1000 employees. The contractual life of option granted is 6 years.
Other relevant information is as follows:

Vesting Period
Exercise period
Expected Life
Exercise Price
Market Price
Expected Forfeitures per year

3 years
3 years
5 years
₹ 100
₹ 100
3\%

The option granted vest according to a graded schedule of $25 \%$ at the end of the year 1 , $25 \%$ at the end of the year 2 and the remaining $50 \%$ at the end of the year 3.
You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognized at the end of all the three years assuming that expected forfeiture rate does not change during the vesting period when the Intrinsic value of the options at the grant date is ₹ 7 per option.
(e) Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.
(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of $₹ 10$ each, the following:

- New fully paid ₹ 10 Equity Shares equal to $3 / 5^{\text {th }}$ of their holding.
- Fully paid ₹ $10,6 \%$ Preference Shares to the extent of $2 / 5$ th of the above new equity shares.
- $7 \%$ Debentures of ₹ 250,000 .
(ii) Goodwill which stood at ₹ $2,70,000$ is to be completely written off.
(iii) Plant \& Machinery to be reduced by ₹ $1,00,000$, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by $₹ 1,50,000$.
(iv) Investment of ₹ $6,00,000$ to be brought down to its existing market price of ₹ $1,80,000$.
(v) Write off Profit \& Loss Account debit balance of ₹ $2,25,000$.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.
You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.
(4 Parts x 5 Marks = 20 Marks)

## Answer

(a) Impact of various items in terms of deferred tax liability/deferred tax asset on 31.3.21

| Transactions | Analysis | Nature of <br> difference | Effect | Amount (₹) |
| :--- | :--- | :--- | :--- | ---: |
| Difference in <br> depreciation | Generally, written <br> down value method <br> of depreciation is <br> adopted under IT Act <br> which leads to <br> higher depreciation <br> in earlier years of <br> useful life of the | Responding <br> timing <br> difference | Reversal <br> of DTL | 28 lakhs $\times 40 \%$ <br> $=$ ₹ 11.20 lakhs |


|  | asset in comparison <br> to later years. <br> Tax payable for the <br> earlier year was <br> Disallowances, <br> as per IT Act, <br> of earlier years <br> higher on this <br> account. | Responding <br> timing <br> difference | Reversal <br> of DTA | 14 lakhs $\times 40 \%$ <br> $=5.6$ lakhs |
| :--- | :--- | :--- | :--- | :--- |
| Share issue <br> expenses <br> Due to disallowance <br> of full expenditure <br> under IT Act, tax <br> payable in the earlier <br> years was higher. | Responding <br> timing <br> difference | Reversal <br> of DTA | 7 lakhs $\times 40 \%$ <br> $=$ ₹ 2.8 lakhs |  |
| Repairs to <br> plant and <br> machinery | Due to allowance of <br> full expenditure <br> under IT Act, tax <br> payable of the <br> current year will be <br> less. | Originating <br> timing <br> difference | Increase <br> in DTL | 70 lakhs $\times 40 \%$ <br> $=28$ lakhs |

(b)

| Particulars | I | II | III | Total (₹) |
| :--- | ---: | ---: | ---: | ---: |
| No. of shares | 32,000 | 48,000 | $12,80,000$ | $13,60,000$ |
| Equity share capital | $32,00,000$ | $48,00,000$ | $128,00,000$ | $208,00,000$ |
|  | $(@ ₹ 100)$ | $($ (@₹ 100$)$ | $(@ ₹ 10)$ |  |
| Paid up share Capital (A) | $25,60,000$ | $16,80,000$ | $89,60,000$ | $132,00,000$ |
| Loss due to Liquidation (B) (₹ |  |  |  |  |
| 100,00,000 in 2:3:8) | $(15,38,462)$ | $(23,07,692)$ | $(61,53,846)$ | $(100,00,000)$ |
| Surplus/ (deficiency) amount |  |  |  |  |
| distributed among different |  |  |  |  |
| categories of shareholders |  |  |  |  |
| (A) - (B) |  |  |  |  |

Loss due to Liquidation ₹ $100,00,000$ will be distributed in ratio in 2:3:8
Note: Shareholders of category I and III will get surplus amount, while category II shareholders will pay ₹ $6,27,692$.

## Alternative Answer

| Particulars | I | II | III |
| :--- | ---: | ---: | ---: |
| No. of shares (A) | 32,000 | 48,000 | $12,80,000$ |
| Nominal value per share | $₹ 100$ | $₹ 100$ | $₹ 10$ |
| Paid up value per share (B) | 80 | 35 | 7 |
| Loss per share due to Liquidation (C) | 48.08 | 48.08 | 4.808 |


| Surplus/ Deficiency amount distributed <br> among different categories of shareholders <br> $(A) \times[(B)-(C)]$ |  |  |  |
| :--- | ---: | ---: | ---: |

## Calculation of loss per share

```
Total Paid up Share Capital \(=₹ 1,32,00,000\)
Surplus \(\quad=₹ 32,00,000\)
Loss to Shareholders \(=₹ 1,00,00,000\)
No. Shares \(=\quad=2,08,000[32,000+48,000+(12,80,000 \times 10 / 100)]\)
Loss per Share \(=\quad=\) ₹ 48.08
```

(c) Amount of provision

The goods are sold with a right to return. The existence of such right gives rise to a present obligation on the company as per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets'. According to the standard, a provision should be created on the Balance sheet date, for sales returns after the Balance Sheet date, at the best estimate of the loss expected, along with any estimated incremental cost that would be necessary to resell the goods expected to be returned.

| Sales <br> during | Sales value <br> (₹ in lacs) | Sales value <br> (cumulative) <br> $₹$ (in lacs) | Likely <br> returns <br> (\%) | Likely <br> returns <br> $₹$ (in lacs) | Provision @ <br> 20\% (₹ in lacs) <br> (Refer W.N.) |
| :--- | :---: | :---: | :---: | :---: | :---: |
| March | 60 | 60 | $6 \%$ | 3.60 | 0.720 |
| February | 48 | 108 | $7 \%$ | 7.56 | 1.512 |
| January | 36 | 144 | $8 \%$ | $\underline{\underline{11.52}}$ | $\underline{2.304}$ |
| Total |  |  | $\underline{22.68}$ | $\underline{4.536}$ |  |

## Revenue to be recognized

Revenue in respect of sale of goods is recognized fully at the time of sale itself assuming that the company has complied with the conditions stated in AS 9 relating to recognition of revenue in the case of sale of goods. As per AS 9, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:
(i) Seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. AS 9 also provides that in case of retail sales offering a guarantee of 'money back, if not completely satisfied, it may be appropriate
to recognize the sale but to make a suitable provision for returns based on previous experiences.
Therefore, sale of ₹ 36 lakhs, ₹ 48 lakhs and ₹ 60 lakhs made in the months of January, February and March will be recognized at full value. Thus, total revenue to be recognized for ₹ 400 lacs for the year.

## Working Note:

## Calculation of Profit \% on sales

|  | (₹ in lacs) |
| :--- | ---: |
| Sales for the year | 400 |
| Less: Cost of sales | $\underline{(320)}$ |
| Profit | -80 |
| Profit mark up on sales $(80 / 400) \times 100=20 \%$ |  |

(d) Since the options granted have a graded vesting schedule, the enterprise segregates the total plan into different groups, depending upon the vesting dates and treats each of these groups as a separate plan. The enterprise determines the number of options expected to vest under each group as below:

| Vesting <br> Date <br> (Year-end) |  | Options expected <br> to vest |
| :--- | :--- | :--- |
| 1 | 600 options $\times 1,000$ employees $\times 25 \% \times 0.97$ | $1,45,500$ options |
| 2 | 600 options $\times 1,000$ employees $\times 25 \% \times 0.97 \times 0.97$ | $1,41,135$ options |
| 3 | 600 options $\times 1,000$ employees $\times 50 \% \times 0.97 \times 0.97 \times$ | $2,73,802$ options |
|  | 0.97 | $\underline{5,60,437 \text { options }}$ |

In case of intrinsic value method, total compensation expense for the options expected to vest would be

| Vesting Date <br> (End of year) | Expected Vesting <br> (No. of Options) | Value per <br> Option (₹) | Compensation <br> Expense (₹) |
| :---: | :---: | :---: | :---: |
| 1 | $1,45,500$ | 7 | $10,18,500$ |
| 2 | $1,41,135$ | 7 | $9,87,945$ |
| 3 | $\underline{2,73,802}$ | 7 | $\underline{19,16,614}$ |
|  | $\underline{5,60,437}$ |  | $\underline{39,23,059}$ |

Total compensation expense of $₹ 39,23,059$, determined at the grant date, would be attributed to the years 1,2 and 3 as below:

| Vesting Date <br> (End of year) | Year 1 |  | Cost to be recognized |  |
| :--- | ---: | ---: | ---: | :---: |
|  | $10,18,500$ |  | Year 2 |  |
| 1 | $4,93,972.50^{*}$ | $4,93,972.50$ |  |  |
| 2 | $\underline{6,38,871}$ | $\underline{6,38,871}$ | $\underline{6,38,872}$ |  |
| 3 | $\underline{21,51,343.50}$ | $\underline{11,32,843.50}$ | $\underline{6,38,872}$ |  |
| Cost for the year | $21,51,343.50$ | $32,84,187$ | $39,23,059$ |  |
| Cumulative cost |  |  |  |  |

* Alternatively, it may be rounded off as ₹4,93,972 in year 1 and ₹4,93,973 in year 2.
(e)

Journal Entries

|  |  | ₹ | ₹ |
| :---: | :---: | :---: | :---: |
| Equity Share Capital (old) A/c <br> To Equity Share Capital (₹ 10) A/c <br> To 6\% Preference Share Capital (₹ 10) A/c <br> To 7\% Debentures A/c <br> To Capital Reduction A/c <br> (Being new equity shares, 6\% Preference Shares, $7 \%$ Debentures issued and the balance transferred to Reconstruction account as per the Scheme) | Dr. | 75,00,000 | $\begin{array}{r} 45,00,000 \\ 18,00,000 \\ 2,50,000 \\ 9,50,000 \end{array}$ |
| Building A/c | Dr. | 1,50,000 |  |
| Capital Reduction A/c | Dr. | 9,53,000 |  |
| To Goodwill Account |  |  | 2,70,000 |
| To Plant and Machinery Account |  |  | 1,00,000 |
| To Furniture Account |  |  | 88,000 |
| To Investment A/c |  |  | 4,20,000 |
| To Profit \& Loss A/c |  |  | 2,25,000 |
| (Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit \& Loss as per the scheme) |  |  |  |
| General reserve A/c | Dr. | 3,000 | 3,000 |
| To Capital Reduction A/c |  |  |  |
| (Being general reserve utilized to write off the balance in Capital reduction A/c) |  |  |  |

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.


[^0]:    * NOTE: Alternative solution using Revaluation Account is also possible. In that case, Revaluation account will be prepared in the books of both amalgamating firms for recording profit /loss on revaluation of assets. However, the final balances of partners' capitals in the balance sheet of amalgamated firm will remain same as given in the above solution.

