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) H Ltd. began the construction of a new building on 1st April 2020. It obtained a special loan of ₹ 6,00,000 on 1st April 2020 at an interest of 12% to finance the construction of the building.

The company's other outstanding two non-specific loans on 1st April, 2020 were as follows:

Amount in ₹	Rate of Interest (p.a.)
30,00,000	14%
54,00,000	16%

The expenditure incurred on the building project was as per detail given below:

	Amount In ₹
1st May, 2020	12,00,000
1st July, 2020	15,00,000
1st October, 2020	27,00,000
1st March, 2021	7,20,000

The building was completed by 31st March 2021.

Following the provisions of Accounting Standard 16, you are required to calculate the amount of interest to be capitalized and also give one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

(b) Light Limited leased a machine to Thunder Limited on the following terms:

		(₹ In Lakhs)
(i)	Fair value of the machine	72
(ii)	Lease term	5 years
(iii)	Lease rental per annum	12
(iv)	Guaranteed residual value	2.40
(v)	Expected residual value	4.50
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

You are required to calculate Unearned Finance Income.

(c) Sunrise Ltd. acquired a copyright on 1st April, 2017 for ₹ 364 Lakhs. The copyright was available for use from 1st April, 2017 itself. The company amortizes the copyright over a period of 13 years on straight line basis. Accordingly Sunrise Ltd. is showing the copyright at ₹ 252 Lakhs as on 1st April, 2021.

You are required to comment on the accounting treatment of copyright with reference to the requirement of relevant Accounting Standard.

(d) A Company dealing in software provides after sales warranty for 2 years to its customer. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period:

Less than 1 year: 3% provision

More than 1 year: 4% provision

The company has raised invoices as under:

Invoice Date	*Amount (₹)*
19th January, 2019	*1,20,000*
29th January, 2020	*75,000*
15th October, 2020	*2,70,000*

You are required to calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2020 and 31st March, 2021. Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2021.

(4 Parts x 5 Marks = 20 Marks)

Answer

(a) Interest amount to be capitalized

		₹
Specific borrowings (₹ 6,00,000 x 12%)	=	72,000
Non-specific borrowings [₹ 30,35,000 (₹ 36,35,000 – ₹ 6,00,000) x 15.29%*]	=	4,64,052
Amount of interest to be capitalized	=	5,36,052

Journal Entry for capitalizing cost and borrowing cost

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
31.3.2021	Building account	Dr.	66,56,052	

	(Cost of building ₹ 61,20,000 + borrowing cost ₹ 5,36,052) To Bank account (Being amount of cost of building and borrowing cost thereon capitalized)		66,56,052

Working notes:

(i) Computation of average accumulated expenses

		₹
₹ 12,00,000 x 11 / 12	=	11,00,000
₹ 15,00,000 x 9 / 12	=	11,25,000
₹ 27,00,000 x 6 / 12	=	13,50,000
₹ 7,20,000 x 1 / 12	=	60,000
61,20,000		36,35,000

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	*Rate of interest*		*Amount of interest (₹)*
30,00,000	14%	=	4,20,000
54,00,000	16%	=	8,64,000
84,00,000			12,84,000
Weighted average rate of interest $\left(\frac{12,84,000}{84,00,000} \times 100\right)$		=	15.29%* (Rounded off)

Note:

The weighted average rate of interest may also be rounded off as 15.28% or 15.286%. Alternative answers based on this weighted average rate of interest may also be given due credit.

(b) 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.

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)

= [(₹ 12,00,000 × 5 years) + ₹ 2,40,000] + ₹ 2,10,000 = ₹ 64,50,000 (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	12,00,000	0.8696	10,43,520
2	12,00,000	0.7561	9,07,320
3	12,00,000	0.6575	7,89,000
4	12,00,000	0.5718	6,86,160
5	12,00,000	0.4972	5,96,640
	2,40,000 (GRV)	0.4972	1,19,328
	62,40,000		41,41,968 (i)
	2,10,000 (URV)	0.4972	1,04,412 (ii)
	64,50,000	(i)+ (ii)	42,46,380(b)

Unearned Finance Income (a) - (b) = ₹ 64,50,000 – ₹ 42,46,380 = ₹ 22,03,620.

(c) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate 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.

Company has been following the policy of amortization of the copyright over a period of 13 years on straight line basis. The period of 13 years is more than the maximum period of 10 years specified as per AS 26.

Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at ₹ 218.40 lakhs i.e. ₹ 364 lakhs less ₹ 145.60 lakhs [36.4 (364/10 years) x 4].

The difference of ₹ 33.60 Lakhs (252 lakhs – 218.40 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 218.40 lakhs will be amortized over remaining 6 years by amortizing ₹ 36.40 lakhs per year.

(d) Provision to be made for warranty under AS 29 ‘Provisions, Contingent Liabilities and Contingent Assets’

As at 31st March, 2020 = ₹ 1,20,000 x .03 + ₹ 75,000 x .04

= ₹ 3,600 + ₹ 3,000 = ₹ 6,600

As at 31st March, 2021 = ₹ 75,000 x .03 + ₹ 2,70,000 x .04

= ₹ 2,250 + ₹ 10,800 = ₹ 13,050

Amount debited to Profit and Loss Account for year ended 31st March, 2021

	₹
Balance of provision required as on 31.03.2021	13,050
Less: Opening Balance as on 1.4.2020	(6,600)
Amount debited to profit and loss account	6,450

Note: No provision will be made on 31st March, 2021 in respect of sales amounting ₹ 1,20,000 made on 19th January, 2019 as the warranty period of 2 years has already expired.

Question 2

Ram, Shyam and Mohan are partners sharing profits and losses in the ratio of 5:3:2 respectively. The Trial Balance of their firm as at 31st March, 2021 was as follows:

Particulars		
Furniture at Cost	*3,00,000*	
Inventory	*2,06,100*	
Trade receivables	*1,86,000*	
Trade payables		*2,54,100*
Capital A/cs:		
Ram		*2,04,000*
Shyam		*1,35,000*
Mohan		*69,000*
Drawing A/cs:		
Ram	*75,000*	
Shyam	*69,000*	
Mohan	*51,000*	
Accumulated Depreciation on furniture		*1,20,000*
Profits for the year ended 31st March, 2021		*3,72,900*
Cash at Bank	*2,67,900*	
	11,55,000	*11,55,000*

Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Accounts at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a new company in the name of 'RSM Private Limited' *with an Authorized Share Capital of 3,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.*

You are provided with the following information:

1. *Furniture is to be transferred at ₹ 2,10,000.*
2. *Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.*
3. *Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,50,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.*
4. *Assets and liabilities except furniture and bank balance, are to be transferred at their book values as on the above date.*

You are required to prepare:

(a) *Statement showing the workings of the Number of Shares of each class to be issued by the company to each partner.*

(b) *Capital Accounts showing all adjustments required to dissolve the Partnership.*

(c) *Balance Sheet of the Company immediately after acquiring the business of the partnership and issuing of Shares.* ***(16 Marks)***

Answer

(i) Number of Shares to be issued to Partners

	₹
Assets: Furniture ₹ 2,10,000 + Inventory ₹ 2,06,100 + Trade Receivable ₹1,86,000 + Bank ₹ 1,50,000	7,52,100
Less: Liabilities taken over	(2,54,100)
Net Assets taken over (Purchase Consideration)	4,98,000

Classes of Shares to be issued:	Ram	Shyam	Mohan	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	2,04,000	1,35,000	69,000	4,08,000
Balance in Equity Shares of ₹ 10 each (4,98,000 less 4,08,000) (Issued in profit sharing ratio)	45,000	27,000	18,000	90,000
	2,49,000	1,62,000	87,000	4,98,000

(ii) Partners' Capital Accounts

Particulars	Ram	Shyam	Mohan	Particulars	Ram	Shyam	Mohan
To Drawings	75,000	69,000	51,000	By balance b/d	2,04,000	1,35,000	69,000
To 10% Preference share capital	2,04,000	1,35,000	69,000	By Interest on Capital	20,400	13,500	6,900
To Equity Shares	45,000	27,000	18,000	By profit for the year - (W.N. 1)	1,66,050	99,630	66,420
To Bank- Additional drawings (W.N. 2)	81,450	26,130	10,320	By Realization (Furniture) A/c*	15,000	9,000	6,000
Total	4,05,450	2,57,130	1,48,320		4,05,450	2,57,130	1,48,320

* *Gain on Transfer of Furniture = ₹ 2,10,000 – (3,00,000 less 1,20,000) = ₹ 30,000 in 5:3:2*

(iii) Balance sheet of RSM Pvt. Ltd. as at 31st March, 2021 (after Takeover of Firm)

		Note no.	₹
I	Equity and Liabilities		
	(1) Shareholders Funds		
	Share Capital	1	4,98,000
	(2) Current Liabilities		
	Trade Payables		2,54,100
	Total		7,52,100
II	Assets		
	(1) Non-Current Assets		
	Property, Plant and Equipment - Furniture		2,10,000
	(2) Current Assets:		
	(a) Inventories		2,06,100
	(b) Trade Receivables		1,86,000
	(c) Cash and Cash Equivalents		1,50,000
	Total		7,52,100

Notes to Accounts

Particulars	₹
1. Share capital	
Authorized share capital	30,00,000

Issued, Subscribed & paid up	
9,000 Equity Shares of ₹ 10 each	90,000
40,800 10% Preference Shares of ₹ 10 each	4,08,000
(All above shares issued for consideration other than cash, in takeover of partnership firm)	4,98,000

Working Notes:

1. **Profit & Loss Appropriation Account for the year ended 31.3.2021**

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	3,72,900
Ram [₹ 2,04,000 x 10%]	20,400			
Shyam [₹ 1,35,000 x 10%]	13,500			
Mohan [₹69,000 x 10%]	6,900	40,800		
To Profits transferred to Partners' Capitals in profit sharing ratio 5:3:2				
Ram	1,66,050			
Shyam	99,630			
Mohan	66,420	3,32,100		
		3,72,900		3,72,900

2. **Statement showing Additional Drawings in Cash**

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,95,000
Add:	Further Funds available for Drawings (2,67,900-1,50,000)	1,17,900
		3,12,900
Less:	Interest on Capital	(40,800)
	Amount available for Drawings	2,72,100

(b) Ascertainment of Additional Drawings

Particulars	Ram	Shyam	Mohan
As per above statement ₹ 2,72,100 (in profit sharing ratio)	1,36,050	81,630	54,420
Add: Interest	20,400	13,500	6,900
	1,56,450	95,130	61,320

Less: Already drawn	(75,000)	(69,000)	(51,000)
Additional Drawings*	81,450	26,130	10,320

** This may also be calculated through balancing figures in partners' capital accounts.*

Question 3

(a) *Jay Ltd. offered 45 Lakhs equity shares of ₹ 10 each at par to the public. The issue was underwritten equally by three underwriters A, B and C. The firm underwriting by the underwriters was for 1,50,000 shares each. Total subscriptions were for 38,91,000 shares out of which marked forms were as follows:*

A: 12,75,000 Shares, B: 13,50,000 Shares, C: 10,50,000 Shares.

Benefit of firm underwriting was given to underwriters and unmarked applications were credited to the underwriters equally. The underwriters applied for number of shares covered by firm underwriting.

The amount payable on application was ₹ 4 and on allotment ₹ 3 per share. The underwriting commission payable to underwriters was agreed at 3%.

You are required to give Journal Entries in the books of Jay Ltd. for allotment of shares to underwriters, commission due to each of the underwriters and the net cash paid to or received from the underwriters. ***(8 Marks)***

(b) *X Limited grant 7,500 options to its employees on 1.04.2017 at ₹ 80 when the market price was ₹ 134. The vesting period is 3 years. The maximum exercise period is one year. 7,000 options were exercised on 31.03.2021, the remaining 500 options lapsed, the face value of equity share is ₹ 10 per share.*

You are required to pass Journal Entries (with narration) for the above transactions.

(8 Marks)

Answer

(a) Journal Entries in books of Jay Ltd.

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	18,00,000	
To Share Application A/c			18,00,000
(Application money received on firm applications for 1,50,000 each i.e. 4,50,000 @ ₹ 4 per share from A, B & C)			
A	Dr.	4,50,000	
B	Dr.	4,50,000	
C	Dr.	15,63,000	

Share Application A/c Dr.	18,00,000	
To Share Capital A/c		42,63,000
(Allotment of shares to underwriters)		
Underwriting Commission A/c Dr.	13,50,000	
To A		4,50,000
To B		4,50,000
To C		4,50,000
(Amount of underwriting commission payable to A, B and C @ 3% on the amount of shares underwritten.)		
Bank A/c Dr.	11,13,000	
To C		11,13,000
(Amount received from C on shares allotted less underwriting commission)		

Calculation of Amounts Payable by Underwriters

	A	B	C
Liability (No. of shares)	1,50,000	1,50,000	3,09,000
	₹	₹	₹
Amount payable @ ₹ 7* per share	10,50,000	10,50,000	21,63,000
Less: Amount paid on Firm Applications of 1,50,000 each @ ₹ 4	(6,00,000)	(6,00,000)	(6,00,000)
Balance payable	4,50,000	4,50,000	15,63,000
Underwriting Commission Receivable	4,50,000	4,50,000	4,50,000
Amount paid by the company	-	-	-
Amount received by the Company	-	-	11,13,000

* *Till allotment [₹ 3 (balance amount) not considered].*

Working Note:

Calculation of Liability of Underwriters (in shares)

	A	B	C
Gross Liability (No. of shares)	15,00,000	15,00,000	15,00,000
Less: Marked Applications (excluding firm underwriting)	(12,75,000)	(13,50,000)	(10,50,000)
	2,25,000	1,50,000	4,50,000
Less: Unmarked Applications (equally)	(72,000)	(72,000)	(72,000)
	1,53,000	78,000	3,78,000
Less: Firm Underwriting	(1,50,000)	(1,50,000)	(1,50,000)
	3,000	(72,000)	2,28,000

Surplus of B distributed between A & C equally	(36,000)	72,000	(36,000)
	(33,000)	-	1,92,000
Surplus of A allocated to C totally	33,000	—	(33,000)
Net liability, excluding firm underwriting	-	—	1,59,000
Add: Firm underwriting	1,50,000	1,50,000	1,50,000
Total liability of underwriters	1,50,000	1,50,000	3,09,000

Note:

Journal Entries for allotment of shares to underwriters (not including entries for allotment of shares to public) have been given in the solution as per the requirement of the question.

(b) Journal Entries in the books of X Limited

Date	*Particulars*		*Dr.* (₹)	*Cr.* (₹)
31.3.2018	Employees compensation expenses account	Dr.	1,35,000	
	To Employee stock option outstanding account			1,35,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 7,500 options granted to employees at a discount of ₹ 54 each, amortized on straight line basis over 3 years – 7,500 stock options x ₹ 54/3 years)			
	Profit and loss account	Dr.	1,35,000	
	To Employees compensation expenses account			1,35,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2019	Employees compensation expenses account	Dr.	1,35,000	
	To Employee stock option outstanding account			1,35,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 7,500 options granted to employees at a discount of ₹ 54 each, amortized on straight line basis over 3 years – 7,500 stock options x ₹ 54/3 years)			

	Profit and loss account	Dr.	1,35,000	
	To Employees compensation expenses account			1,35,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2020	Employees compensation expenses account	Dr.	1,35,000	
	To Employee stock option outstanding account			1,35,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 7,500 options granted to employees at a discount of ₹ 54 each, amortized on straight line basis over 3 years – 7,500 stock options x ₹ 54/3 years)			
	Profit and loss account	Dr.	1,35,000	
	To Employees compensation expenses account			1,35,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.2021	Bank A/c (7,000 × ₹ 80)	Dr.	5,60,000	
	Employee stock option outstanding account (7,000 × ₹ 54)	Dr.	3,78,000	
	To Equity share capital account (7,000 × ₹ 10)			70,000
	To Securities premium account (7,000 x ₹ 124)			8,68,000
	(Being 7,000 employee stock option exercised at an exercise price of ₹ 80 each)			
	Employee stock option outstanding account (W.N.2)	Dr.	27,000	
	To General reserve account			27,000
	(Being ESOS outstanding A/c on lapse of 500 options at the end of exercise of option period transferred to General Reserve A/c)			

Expenses charged on lapsed vested options transferred to general reserve

= 500 x ₹54 =₹ 27,000

NOTE:

Following alternative entries may be given in place of entries (given above) on 31.3.2021:

31.3.2021	Bank A/c (7,000 × ₹ 80)	Dr.	5,60,000	
	To Equity share capital account (7,000 × ₹ 10)			70,000
	To Securities premium account			4,90,000
	(Being 7,000 employee stock option exercised at an exercise price of ₹ 70 each)			
	Employee stock option outstanding account	Dr.	4,05,000	
	To Securities premium account (7,000 × ₹ 54)			3,78,000
	To General reserve account			27,000
	(Being premium @ ₹ 54 received on 7,000 shares and balance in Employee stock option outstanding account transferred to General Reserve A/c)			

Question 4

The Summarized Balance Sheets of Sun Ltd. and Light Ltd. as on 31st March, 2021 are given below.

	Sun Ltd. (₹)	*Light Ltd.* (₹)
I. Liabilities		
Equity Share Capital	*1,40,00,000*	*84,00,000*
(Divided into Shares of ₹ 5 each fully paid up)		
General Reserve	*28,00,000*	*16,04,000*
Trade Payables	*42,00,000*	*25,96,000*
Total	*2,10,00,000*	*1,26,00,000*
II. Asset		
Sundry Assets	*2,10,00,000*	*1,26,00,000*
Total	*2,10,00,000*	*1,26,00,000*

The following further information is also given:

(i) Sun Ltd. absorbed Light Ltd. on the basis of intrinsic value of shares of Sun Ltd.

(ii) The Purchase Consideration is discharged in fully paid up shares.

(iii) Sun Ltd. owed a sum of ₹ 7,00,000 to Light Ltd.

(iv) Inventory of Sun Ltd. included ₹ 8,40,000 supplied by Light Ltd. at cost plus 25%.

(v) Sundry Assets of Light Ltd. included Land of ₹ 28,00,000 the market value of which is ₹ 35,00,000.

You are required to:

(a) Give journal entries in the books of both Sun Ltd. and Light Ltd., if journal entries are passed at intrinsic value of shares of Sun Ltd.

(b) Calculate the intrinsic value of shares of Sun Ltd., and

(c) Prepare Balance Sheet of Sun Ltd. after absorption. ***(16 Marks)***

Answer

Journal Entries in the Books of Light Ltd.

			Dr. (₹)	*Cr. (₹)*
(i)	Realization A/c	Dr.	1,26,00,000	
	To Sundry assets A/c			1,26,00,000
	(Being assets transferred to realization account on sale of business to Sun Ltd.)			
(ii)	Trade payables A/c	Dr.	25,96,000	
	To Realization A/c			25,96,000
	(Being trade payables transferred to realization account on sale of business to Sun Ltd.)			
(iii)	Equity share capital A/c	Dr.	84,00,000	
	General reserve A/c	Dr.	16,04,000	
	To Equity shareholders A/c			1,00,04,000
	(Being transfer of share capital and general reserve to shareholders account)			
(iv)	Sun Ltd.	Dr.	1,07,04,000	
	To Realization A/c			1,07,04,000
	(Being purchase consideration due – W.N.)			
(v)	Equity shares in Sun Ltd.	Dr.	1,07,04,000	
	To Sun Ltd.			1,07,04,000
	(Being purchase consideration received by Sun Ltd.)			
(vi)	Realization A/c	Dr.	7,00,000	
	To Equity shareholders A/c			7,00,000
	(Being profit on realization transferred to shareholders account)			

(vii)	Equity shareholders A/c	Dr.	1,07,04,000	
	To Equity shares in Sun Ltd. A/c			1,07,04,000
	(Being 17,84,000 shares for ₹ 6 each distributed to equity shareholders of Light Ltd.)			

Journal Entries in the Books of Sun Ltd.

			Dr. (₹)	*Cr. (₹)*
(i)	Business purchase A/c	Dr.	1,07,04,000	
	To Liquidators of Light Ltd. A/c			1,07,04,000
	(Being amount payable to Light Ltd. – W.N. 2)			
(ii)	Sundry assets A/c	Dr.	1,33,00,000	
	To Trade payables A/c			25,96,000
	To Business purchase A/c			1,07,04,000
	(Being assets & liabilities taken over and purchase consideration due)			
(iii)	Liquidators of Light Ltd. A/c	Dr.	1,07,04,000	
	To Equity share capital A/c (17,84,000 x ₹ 5)			89,20,000
	To Securities premium A/c (17,84,000 x ₹ 1)			17,84,000
	(Being shares allotted in full payment of purchase consideration)			
(iv)	Trade payables A/c	Dr.	7,00,000	
	To Trade receivables (of Light Ltd.) A/c			7,00,000
	(Being cancellation of mutual liability of Trade receivables &Trade payables of ₹ 7,00,000)			
(v)	General reserve A/c	Dr.	1,68,000*	
	To Inventory A/c			1,68,000
	(Being elimination of unrealized profit on unsold Inventory of ₹ 8,40,000, bought from Light Ltd.)			

*Unrealized profit = ₹ 8,40,000 × 25/125

Calculation of Intrinsic Value of shares of 'Sun' Ltd.

	₹
Sundry assets of Sun Ltd.	2,10,00,000
Less: Trade payables	(42,00,000)
Net assets	1,68,00,000
Number of equity shares (140,00,000/5)	28,00,000 shares
Intrinsic value per equity share = 1,68,00,000/28,00,000	₹ 6 per share

Balance Sheet of Sun Ltd. as at 31st March, 2021

Particulars	*Note No*	*₹*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,29,20,000
(b) Reserves and Surplus	2	44,16,000
(2) Non-Current Liabilities		Nil
(3) Current Liabilities		
(a) Trade payables	3	60,96,000
Total		3,34,32,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment (Land)		35,00,000
(2) Current assets		
(a) Sundry assets	4	2,99,32,000
Total		3,34,32,000

Notes to Accounts

1	Share Capital		
	45,84,000 Equity shares of ₹ 5 each		2,29,20,000
	(of the above, 17,84,000 equity shares of ₹ 5 each are issued for consideration other than cash)		
2	Reserve and Surplus		
	Securities premium	17,84,000	
	General reserve (28,00,000 – 1,68,000)	26,32,000	44,16,000
3	Trade payables		
	(42,00,000 + 25,96,000 - 7,00,000)		60,96,000
4	Sundry Current assets		
	(2,10,00,000 + 98,00,000 – 7,00,000 – 1,68,000)		2,99,32,000

Working Note:

Calculation of Purchase Consideration

	₹
Sundry assets of Light Ltd. (other than Land) (1,26,00,000 – 28,00,000)	98,00,000

Add: Land at market value	35,00,000	
	1,33,00,000	
Less: Trade payables	(25,96,000)	
Net assets	1,07,04,000	*Shares*
Total number of equity shares to be issued by Sun Ltd. @ ₹ 6 per share (₹ 1,07,04,000 / ₹ 6)	17,84,000	
	₹	
Equity share capital (17,84,000 shares × ₹ 5)	89,20,000	
Securities premium (17,84,000 shares × ₹ 1)	17,84,000	
Purchase consideration	1,07,04,000	

Question 5

(a) From the following information given by Well Worth Insurance Co. Ltd., you are required to pass necessary Journal entries (with narration and required working notes) relating to Unexpired Risk Reserve.

(i) On 31.03.20 it had reserve for unexpired risks amounting to ₹ 120 crores. Its composition was as under:

(a) ₹ 45 crores in respect of Marine insurance business

(b) ₹ 60 crores in respect of Fire insurance business and

(c) ₹ 15 crores in respect of Miscellaneous insurance business

(ii) Well Worth Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine insurance business and 50% of net premium income in respect of Fire and Miscellaneous insurance policies.

(iii) During 2020-21, the following business was conducted:

			₹ in crore)
	Marine	*Fire*	*Miscellaneous*
Premium collected from:			
(a) Insured in respect of Policies issued	*54*	*129*	*36*
(b) Other Insurance Companies in respect of risks undertaken	*21*	*15*	*12*
Premium paid/payable to other insurance Companies on Business ceded	*30*	*15*	*24*

(6 Marks)

(b) *The following figures are available from the books of Prudent Bank Ltd. for the year ended 31st March, 2021.*

	Amount in ₹
Interest and Discounts Received	*1,52,00,640*
Interest Paid on Deposits	*91,81,440*
Salaries and Allowances	*10,00,000*
Directors' Fees and Allowances	*1,40,000*
Rent and Taxes Paid	*4,00,000*
Postage	*2,61,360*
Statutory Reserve Fund	*32,00,000*
Commission, Exchange and Brokerage Earned	*7,60,000*
Rent Received	*2,88,000*
Profit on sale of Investments	*9,03,200*
Depreciation on Assets	*1,60,000*
Statutory Expenses	*1,52,000*
Preliminary Expenses	*1,20,000*
Auditors' Fees	*48,000*

The following further information is also available:

(i) *Issued and Subscribed Capital of the Bank is ₹ 40,00,000*

(ii) *Preliminary Expenses to be fully written off during the year.*

(iii) *Rebate on Bills Discounted was ₹ 60,000 as on 31st March, 2020 and was ₹ 80,000 on 31st March, 2021.*

(iv) *The Directors wish to declare a dividend of 15%.*

(v) *Income Tax of ₹ 8,00,000 is to be provided.*

(vi) *Mr. G, a customer of the bank, who had taken an advance of ₹ 40,00,000 from the bank became insolvent and only 25% was expected to be recovered from his estate.*

(vii) *A provision of ₹ 8,00,000 was also necessary on other debts.*

(viii) *There was no opening balance of Profit and Loss Account.*

You are required to prepare the Profit and Loss Account and the Schedules of Profit and Loss Account of Prudent Bank for the year ended 31st March, 2021. Also show how the Profit and Loss Account will appear in the Balance Sheet. ***(10 Marks)***

Answer

(a) Journal Entries in the books of Well Worth Insurance Co. Ltd.

Date	*Particulars*		*(₹ in crores)* Dr.	Cr.
1.4.2020	Unexpired Risk Reserve (Marine) A/c	Dr.	45.00	
	Unexpired Risk Reserve (Fire) A/c	Dr.	60.00	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	15.00	
	To Marine Revenue A/c			45.00
	To Fire Revenue A/c			60.00
	To Miscellaneous Revenue A/c			15.00
	(Being unexpired risk reserve brought forward from last year)			
31.3.2021	Marine Revenue A/c	Dr.	45.00	
	Fire Revenue A/c	Dr.	64.50	
	Miscellaneous Revenue A/c	Dr.	12.00	
	To Unexpired Risk Reserve (Marine) A/c			45.00
	To Unexpired Risk Reserve (Fire) A/c			64.50
	To Unexpired Risk Reserve (Miscellaneous) A/c			12.00
	(Being closing reserve for unexpired risk created)			

Working Note

Calculation of Closing Unexpired Risk Reserve

	Marine	*Fire*	*Misc*
Premium collected from:			
(a) Insured in respect of Policies issued	54	129	36
(b) Other Insurance Companies in respect of risks undertaken	21	15	12
Total (a) + (b)	75	144	48
Less: Premium Paid / Payable to other insurance companies on Business ceded	30	15	24
Net Premium earned	45	129	24
% of creation of Unexpired Risk Reserve	100%	50%	50%
Closing Unexpired Risk Reserve	45	64.50	12

Alternate Solution:

Alternative answer, where the additional amount for unexpired risk reserve is created without reversing the opening balances is also possible, which can be given as:

Journal Entries in the books of Well Worth Insurance Co. Ltd.

Date	*Particulars*		*(₹ in crores)*	
			Dr.	*Cr.*
31.3.2021	Fire Revenue A/c	Dr.	4.5	
	To Unexpired Risk Reserve (Fire) A/c			4.5
	(Being further Unexpired Risk Reserve required during the year)			
	Unexpired Risk Reserve A/c (Miscellaneous)	Dr.	3	
	To Miscellaneous Revenue A/c			3
	(Being excess Unexpired Risk Reserve reversed)			

Working Note

Calculation of additional amount of Unexpired Risk Reserve

	Marine	*Fire*	*Misc*
Closing Unexpired Risk Reserve	45	64.50	12
Less: Opening Balance of unexpired risk reserve	45	60	15
Transfer to Unexpired Risk Reserve	0	4.5	(3)

(b) Prudent Bank Limited

Profit and Loss Account for the year ended 31st March, 2021

		Schedule	*Year ended 31.03.2021*
			₹
I.	Income:		
	Interest earned	13	1,51,80,640
	Other income	14	19,51,200
	Total		1,71,31,840
II.	Expenditure		
	Interest expended	15	91,81,440
	Operating expenses	16	22,81,360

	Provisions and contingencies (W.N.1)		46,00,000
	Total		160,62,800
III.	Profits/Losses		
	Net profit for the year		10,69,040
	Profit brought forward		Nil
			10,69,040
IV.	Appropriations		
	Transfer to statutory reserve (25% of 10,69,040)		2,67,260
	Proposed dividend		6,00,000
	Balance carried over to balance sheet		2,01,780
			10,69,040

Profit & Loss Account balance of ₹ 2,01,780 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet.

		Year ended 31.3.2021 (₹)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N. 2)	1,51,80,640
		1,51,80,640
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	7,60,000
II.	Profit on sale of investment	9,03,200
III.	Rent received	2,88,000
		19,51,200
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	91,81,440
		91,81,440
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees (salaries & allowances)	10,00,000
II.	Rent, taxes paid	4,00,000
III.	Depreciation on assets	1,60,000
IV.	Director's fee, allowances and expenses	1,40,000

V.	Auditor's fee	48,000
VI.	Statutory expenses	1,52,000
VII.	Postage	2,61,360
VIII.	Preliminary expenses	1,20,000
		22,81,360

Working Notes:

1. **Provisions and contingencies**

	₹
Provision on advance to Mr. G	30,00,000
Provision on other debts	8,00,000
Provision on Income tax	8,00,000
	46,00,000

2. **Interest and discount earned**

	₹
Interest and discount received	1,52,00,640
Add: Rebate on bills discounted on 31.3. 2020	60,000
Less: Rebate on bills discounted on 31.3. 2021	(80,000)
	1,51,80,640

Question 6

(a) You are required to pass necessary Journal entries in the books of an Independent Branch of a Company, wherever required, to rectify or adjust the following:

(i) Expenses of ₹ 5,000 allocated to the Branch by Head Office but not recorded in the Branch books.

(ii) Provision for doubtful debts for debtors, whose accounts are kept by the Head Office, not provided earlier for ₹ 3,000.

(iii) Branch paid ₹ 4,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

(iv) Branch incurred travelling expenses of ₹ 6,000 on behalf of other Branches, but not recorded in the books of Branch.

(v) A remittance of ₹ 1,00,000 sent by the Branch has not been received by Head Office on the date of reconciliation of Accounts.

(vi) Head Office allocates ₹ 80,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.

(vii) Head Office collected, ₹ 50,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.

(viii) Goods dispatched by the Head office amounting to ₹ 20,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(8 Marks)

(b) P Ltd. has two Departments X and Y. From the following particulars you are required to prepare Departmental Trading Account and General (Combined) Trading and P & L Account for the year ending 31st March, 2021.

Particulars	*Department X ₹*	*Department Y ₹*
Opening stock (at Cost)	*70,000*	*54,000*
Purchase	*2,14,000*	*1,66,000*
Carriage inwards	*6,000*	*6,000*
Wages	*21,000*	*24,450*
Sales	*3,10,000*	*2,54,000*
Purchased goods transferred by Dept. Y to Dept. X	*30,000*	*-*
Purchased goods transferred by Dept. X to Dept. Y	*-*	*24,000*
Finished goods transferred by Dept. Y to Dept. X	*80,000*	*-*
Finished goods transferred by Dept. X to Dept. Y	*-*	*1,00,000*
Return of Finished Goods by Dept. Y to Dept. X	*25,000*	*-*
Return of Finished Goods by Dept. X to Dept. Y	*-*	*17,000*
Closing Stock of Purchased Goods	*12,000*	*15,000*
Closing Stock of Finished Goods	*60,000*	*35,000*

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department. ***(8 Marks)***

Answer

(a) Journal Entries in Books of Branch

		Amount in ₹	
		Dr.	Cr.
(i)	Expenses Account Dr. To Head Office Account A/c (Being the expenses allocated by the Head office not recorded earlier, now recorded)	5,000	 5,000

(ii)	Provision for Doubtful Debts A/c	Dr.	3,000	
	To Head Office Account			3,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iii)	Head Office Account	Dr.	4,000	
	To Salaries Account			4,000
	(Being rectification of salary paid on behalf of Head Office)			
(iv)	Head Office Account	Dr.	6,000	
	To Cash Account			6,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(v)	No entry in Branch Books is required.			
(vi)	Expenses Account	Dr.	80,000	
	To Head Office Account			80,000
	(Being allocated expenses of Head Office recorded)			
(vii)	Head Office Account	Dr.	50,000	
	To Debtors Account			50,000
	(Being adjustment entry for collection from Branch Debtors directly by Head Office)			
(viii)	Goods in transit Account	Dr.	20,000	
	To Head Office Account			20,000
	(Being goods sent by Head Office still in-transit)			

(b) **P Ltd.**

Departmental Trading A/c for the year ending 31st March, 2021

	Deptt. X. ₹	*Deptt. Y* ₹		*Deptt. X* ₹	*Deptt. Y* ₹
To Stock	70,000	54,000	By Sales	3,10,000	2,54,000
To Purchases	2,14,000	1,66,000	By Purchased Goods transferred	24,000	30,000
To Wages	21,000	24,450	By Finished goods transferred	1,00,000	80,000
To Carriage	6,000	6,000	Return of finished Goods	17,000	25,000
To Purchased Goods			By Closing Stock:		
transferred	30,000	24,000	Purchased Goods	12,000	15,000

To Finished Goods transferred	80,000	1,00,000	Finished Goods	60,000	35,000
To Return of finished Goods	25,000	17,000			
To Gross profit c/d	77,000	47,550			
	5,23,000	4,39,000		5,23,000	4,39,000

General (combined) Trading and P & L Account for the year ending 31st March, 2021

		₹			₹
To	Opening Stock (₹ 70,000 + ₹ 54,000)	1,24,000	By	Sales (₹ 3,10,000 + ₹ 2,54,000)	5,64,000
To	Purchases (₹ 2,14,000 + ₹ 1,66,000)	3,80,000	By	Closing Stock:	
To	Wages (₹21,000 + ₹ 24,450)	45,450		Purchased Goods (₹ 12,000 + ₹ 15,000)	27,000
To	Carriage (₹6,000 + ₹ 6,000)	12,000		Finished Goods (₹60,000 + ₹ 35,000)	95,000
To	Gross Profit c/d	1,24,550			
		6,86,000			6,86,000
To	Stock Reserve	3,200	By	Gross Profit b/d	1,24,550
To	Net Profit	1,21,350			
		1,24,550			1,24,550

Working note:

1.	**Calculation of Rate of Gross Profit**	Deptt. X	Deptt. Y
	Closing Stock out of transfer (20%)	12,000	7,000
	Sale	3,10,000	2,54,000
	Add: Transfer	1,00,000	80,000
		4,10,000	3,34,000
	Less: Returns	(25,000)	(17,000)
	Net Sales plus Transfer	3,85,000	3,17,000
	Rate of Gross profit	$\frac{77,000}{3,85,000} \times 100 =$ 20%	$\frac{47,550}{3,17,000} \times 100 = 15\%$

2. Unrealized Profit Deptt. X ₹ 12,000 × 15% = ₹ 1,800

Deptt. Y ₹7,000 × 20% = ₹ 1,400

Question 7

*Attempt any **four** questions.*

(a) *Briefly explain the following Qualitative characteristics of Financial Statements.*

(i) Relevance *(iii) Comparability*

(ii) Reliability *(iv) Faithful Representation*

(b) *Differentiate an ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following:*

(i) Applicable Law *(iii) Ownership of Assets*

(ii) Number of Partners *(iv) Liability of Partners/Members*

(c) *The Liquidation of Beta Ltd. commenced on 24th April, 2021. Certain creditors could not receive payments out of realization of assets and out of contributions from 'A' List contributories.*

Given below are details of certain transfers of shares that took place in 2020 and 2021.

Shareholders	Number of Shares Transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding (₹)
P	6,000	05/04/2020	16,000
Q	4,000	01/06/2020	24,000
R	6,000	10/08/2020	30,000
S	1,200	15/12/2020	32,000
T	800	15/01/2021	38,000

The following information should be taken into consideration:

(i) All the shares were of ₹ 10 each, of which ₹ 7 paid up.

(ii) Expenses of liquidation and remuneration to liquidators have to be ignored.

You are required to calculate the amount to be realized from the various shareholders listed above.

(d) Fire Insurance division of Zed Insurance Company provides the following information. You are required to show the amount of net claim paid as it would appear in the Revenue Account for the year ended 31st March, 2021.

	Direct Business	*Re-Insurance*
Claim paid during the year	*70,60,000*	*16,40,000*
Claim received		*6,40,000*
Claim payable:		
1st April, 2020	*16,46,000*	*1,18,000*
31st March, 2021	*17,50,000*	*1,76,000*
Claim Receivable:		
1st April, 2020	-	*1,70,000*
31st March, 2021	-	*2,84,000*
Expenses of Management (Including ₹ 76,000 Surveyor's fee and ₹ 84,000 Legal expenses for settlement of claims)	*6,90,000*	

(e) Department D sells goods to Department E at a profit of 50% on cost and to Department F at 20% on cost. Department E sells goods to D and F at a profit of 25% and 15% respectively on sales. Department F charges 30% and 40% profit on cost to Department D and E respectively.

Stock lying at different departments at the end of the year is as under:

	Department D	*Department E*	*Department F*
Transfer from Department D		*60,000*	*48,000*
Transfer from Department E	*50,000*	-	*80,000*
Transfer from Department F	*52,000*	*56,000*	-

Calculate the Unrealized Profit of each Department and also total Unrealized Profit.

(4 Parts x 4 Marks = 16 Marks)

Answer

(a) (i) **Relevance:** The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past evaluations.

(ii) **Reliability**: To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information in financial statements must be reported in neutral manner. Prudence should be exercised in reporting uncertain outcome of transactions or events.

(iii) **Comparability**: Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.

(iv) **Faithful Presentation**: The information provided is not likely to be reliable unless transactions and events reported are faithfully represented. Financial statements are required to show a true and fair view of performance, financial position and cash flows of an entity.

(b) Distinction between an ordinary partnership firm and an LLP

	Key Elements	**Partnerships**	**LLPs**
(i)	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
(ii)	Number of Partners	Minimum 2 and Maximum 50 (earlier it was 20)	Minimum 2 but no maximum limit
(iii)	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
(iv)	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.

(c) Statement of Liabilities of B List Contributories

Shareholder	*No. of shares transferred*	*Maximum liability upto ₹ 3 per share*	*Division of liability as on*				*Total*
			1.6.20	*10.8.20*	*15.12.20*	*15.1.21*	
Q	4,000	12,000	8,000	Nil	Nil	Nil	8,000
R	6,000	18,000	12,000	4,500	Nil	Nil	16,500
S	1,200	3,600	2,400	900	300	Nil	3,600
T	800	2,400	1,600	600	200	Nil	2,400
	12,000	36,000	24,000	6,000	500	-	30,500

Notes:

1. 'P' transferred shares before one year preceding the date of winding up, therefore, he cannot be held liable for any liability on liquidation.
2. Liability of S restricted to maximum allowable amount of ₹ 3,600 (1,200 shares x ₹ 3). Thus he will pay only ₹ 300 [3,600 less (2,400+900)] on 15.12.20. In the same manner, liability of 'T' has been restricted to the maximum allowable limit of ₹ 2,400 (800 shares X ₹ 3). Therefore, amount payable by T on 15.12.20 is ₹ 200 [₹ 2,400 less (1,600+600] only.
3. 'Q' will not be responsible for further debts incurred after 1st June 2020 (from the date when he ceases to be a member). Similarly, 'R' & 'S' will not be liable for the debts incurred after the date of their transfer of shares.
4. The creditors will be paid only ₹ 30,500. They will bear loss for ₹ 7,500.

Working Note:

Calculation of Ratio for Discharge of Liabilities

Date	*Cumulative liability (₹)*	*Increase in liabilities (₹)*	*Ratio of no. of shares held by Q, R, S & T*
1.6.20	24,000	-	40: 60: 12: 8
10.8.20	30,000	6,000	60: 12: 8
15.12.20	32,000	2,000	12: 8 (subject to max. liability of S and T)
15.1.21	38,000	6,000	Only T (He will contribute nothing because of his maximum limit ₹ 2,400)

(d) Zed Insurance Company (Abstract showing the amount of claims)

Net Claims incurred

		₹
Claims paid on direct business (70,60,000 + 76,000 + 84,000)		72,20,000
Add: Re-insurance	16,40,000	
Add: Outstanding as on 31.3. 2021	1,76,000	
Less: Outstanding as on 1.4. 2020	(1,18,000)	16,98,000
		89,18,000
Less: Claims received from re-insurance	6,40,000	
Add: Outstanding as on 31.3. 2021	2,84,000	
Less: Outstanding as on 1.4. 2020	(1,70,000)	(7,54,000)
		81,64,000

Add: Outstanding direct claims at the end of the year	17,50,000
	99,14,000
Less: Outstanding direct claims at the beginning of the year	(16,46,000)
Net claims incurred	82,68,000

Note: The expenses incurred on settlement of claims such as surveyor's fee, legal expenses etc. should be shown under "claims incurred during the year".

(e) Calculation of unrealized profit of each department and total unrealized profit

	Dept. D	*Dept. E*	*Dept. F*	*Total*
	₹	₹	₹	₹
Unrealized Profit of:				
Department D		60,000 x 50/150 = 20,000	48,000 x 20/120 = 8,000	28,000
Department E	50,000 x .25 = 12,500		80,000 x.15 = 12,000	24,500
Department F	52,000 x 30/130 = 12,000	56,000 x 40/140 = 16,000		28,000
				80,500