CATestSeries.org

CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

Solution Paper
ADVANCE ACCOUNTING FULL SYLLABUS TEST-1
Details: Full Test - 1
Duration: 180
Marks: 100

ISSN 7825509374109

Intructions

All the questions are compulsory
Properly mention test number and page number on your answer sheet
In case of multiple choice questions, mention option number only
Working notes are compulsory wherever required in support of your solution
Donot copy any solution from any material.
Attempt as much as you know to fairly judge your performance.

Legal

Material provided by catestseries is subject to copyright. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher. For permission requests, write to the publisher, addressed “Attention: Permissions Coordinator,” at **exam@catestseries.org**. Content is continuously tracked via barcode. In any person caught of copyright infringement, strong legal action will be taken. For more details check legal terms on the website: catestseries.org

Marks : 100

Advance Accounting

1 - SOLUTION:

(A) Provision of AS 29: As per para 10 of AS 29 Provisions, Contingent Liabilities and Contingent Assets', a contingent liability is: (a) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) a reliable estimate of the amount of the obligation cannot be made. An obligation is a present obligation if, based on the evidence available, its existence at the balance sheet date is considered probable, i.e., more likely than not.

Advice: TDS shall be allowed by the IT department on submission of duplicate TDS certificates. Since the company is making efforts and is hopeful for its ultimate collection, contingent liability will be made for Rs. 2.39 lakhs in the books of account.

Further as per para 15 of the standard, where it is more likely that no present obligation exists at the balance sheet date and the possibility of an outflow of resources embodying economic benefits is remote, no contingent liability is disclosed.

TDS certificates for Rs. 5.13 lakhs (Rs. 7.52 lakhs less 2.39 lakhs) have been submitted and the company has filed a rectification with the Assessing Officer. Therefore, the possibility of an outflow of resources embodying economic benefits is remote, the company shall not disclose it as contingent liability. This amount should be disclosed by way of a note to the accounts.

Note: An alternative view can also be considered on the basis of the paragraph 14 of the standard which states that a provision should be recognised in the books when (a) an enterprise has a present obligation as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

Accordingly, in the given case, since there is a probability of outflow of resources and also the amount can be quantified on account of non-traceability of TDS certificates, a provision may be made for Rs. 2.39 lakhs in the books of account.

Regarding the balance amount of Rs. 5.13 lakhs (Rs. 7.52 lakhs less Rs. 2.39 lakhs), since TDS certificated have been submitted, it is likely that the Income-tax Officer may accept the rectification filed by the assessee. However, since the TDS details have not been uploaded online because of which demand has been issued, there may be a possibility that the rectification may also not be accepted. Therefore, taking a conservative approach, Rs. 5.13 lakhs may be disclosed as a contingent liability.

(5 MARKS)

(B)

CALCULATION OF EARNING PER SHARE (EPS) OF BETA LTD.

	Particulars		**Year ended 31.3.2018**	**Year ended 31.3.2017**
1.	A.	Earning after extra ordinary items (2,06,000 – 6,000),(73,000 – 3,000)	2,00,000	70,000
	B.	No. of Equity Shares	20,000	20,000
	C.	Basic Earning Per Shares [A/B]	10.00	3.50
	A.	Earning before extra ordinary items	1,00,000	70,000
	B.	No. of Equity shares	20,000	20,000*
	C.	Basic Earning Per share [A/B]		
2.	Tax Rate applicable			
		(40,000+30,000)/2,00,000	35%	
		(30,000+10,000)/1,00,000	40%	
3.	A.	Dividend on Weighted Average Perference Shares	6,000	3,000

	B.	Incremental shares	15,000	7,500
	C.	EPS on Incremental Shares [A/B]	0.40	0.40
			(dilutive)	(dilutive)
4.	Convertible Debentures			
	A.	Increase in earnings		
		(1,00,000 x 15% x 0.65)	9,750	
		1,00,000 x 15% x 0.60 x 9/12		6,750
	B.	Increase in shares	1,000	750
	C.	Increase in EPS [A/B]	9.75	9.00
			(Anti dilutive)	(Anti dilutive)

"Since the bonus issue is without consideration, the issue is treated as if it had occurred prior to the beginning of the year 2017

It is anti – dilutive as it increases the EPS from continuing ordinary operations (Para 39, AS 20)

Calculation of Dilutive EPS		**Year ended 31.3.2018 (Rs.)**	**Year ended 31.3.2017 (Rs.)**
A.	**Profit from continuing ordinary activities before**		
	Preference Divided	**1,06,000**	**73,000**
	No. of ordinary equity shares	**20,000**	**20,000**
	Adjustment for dilutive potential of 6% convertible pref. shares	**15,000**	**7,500**
B.	**Total no. of shares**	**35,000**	**27,500**
C.	**Diluted EPS from continuing ordinary operations [A/B]**	**3.02**	**2.65**
D.	**Profit including extra ordinary items**	**2,06,000**	**73,000**
E.	**Adjusted No.of shares**	**35,000**	**27,500**
F.	**Diluted EPS including extra ordinary iteams [D/E]**	**5.88**	**2.65**

Disclosure of EPS in accordance with AS 20 in the Profit and Loss Account:

Earning per share (face value Rs. 100)	31.3.2018 (Rs.)	31.3.2017(Rs.)
Basic EPS from continuing ordinary operations	5.00	3.50
Diluted EPS from continuing ordinary operations	3.02	2.65

(5 MARKS)

(C)

(a) Value of Machine to be recognized by B Ltd

Value of machine to be considered B Ltd + Lower of fair value or Present Value of MLP

PRESENT VALUE OF MLP

Particulars	Years	Amount	PV Factor	PV
Annual Lease Payments	**1-5**	**5 lakhs**	**3.3522**	**16.761**
Guaranteed Residual Value (GRV)	**5**	**1 lakh**	**0.4972**	**.4972**
Present Value of MLP			**Total**	**17.2582**

Value of machine to be considered B Ltd = Rs. 17.257 lakhs (being Lower of Rs. 20 lakhs or Rs. 17.2582 lakhs)

(b) Net Investment in lease from the point of view of A Ltd.

Net Investment (NI) = PV of greoss investment

Gross Investment (GI) = MLP (lessor) + UGRV (lessor).

= (Agreed Lease Rentals + GRV of lessor) + (Residual Value of the asset – Guaranteed Residual Value (lessor).

+ [(Rs. 5 lakhs x 5) + Rs. 1] + (Rs. 2 lakh – Rs. 1 lakh) = Rs. 27 lakhs

PRESENT VALUE OF GROSS INVESTMENT

Particulars	Years	Amount	PV Factor	PV
Annual Lease Payments	**1-5**	**5 lakhs**	**3.3522**	**16.761**
Guaranteed Residual Value (GRV)	**5**	**1 lakh**	**0.4972**	**.4972**
Unguaranteed Residual Value (UGRV)	**5**	**1 lakh**	**0.4972**	**.4972**
Present Value of GI			**Total**	**17.7554**

(c) Unearned Finance Income

= Gross Investment (GI) – Net Investment (NI)

= Rs. 27 lakhs – Rs. 17.7554 lakhs

= Rs. 9.2446 lakhs

(D) CALCULATION OF THE FINANCE CHARGES

A Year	B Opening Balance	C = B*15% Finance Charge	D Lease Rent	E = B + C – D Closing Balance
1	17,25,820	2,58,873	5,00,000	14,84,693
2	14,84,693	2,22,704	5,00,000	12,07,397
3	12,07,397	1,81,110	5,00,000	8,88,507
4	8,88,507	1,33,276	5,00,000	5,21,783
5	5,21,783	78,217*	6,00,000	NIL

***The difference is due to approximation in computing the interest rate implicit in the lease.**

(E) (I) Journal OF B LTD.

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	At the inception of lease			
	Machinery A/c	Dr.	17,25,820*	
	To A Ltd.'s A/c			17,25,820*
	(Being lease of machinery recorded at present value of MLP)			
	At the end of the first year of lease			
	Finance Charges A/c	Dr.	2,58,873	
	To A Ltd.'s A/c			2,58,873
	(Being the finance charges for first year due)			
	A Ltd.'s A/c	Dr.	5,00,000	
	To Bank A/c			5,00,000
	(Being thelease rent lease rent paid to the lessor which includes outstanding liability of A/c. 2,41,127 and finance charge of rs. 2,56,873)			
	Deprecition A/c	Dr.	1,72,582	
	To Machinery A/c			1,72,582
	(Being the depreciation provided @ 10% p.a. on staright line methos)			
	Profit & loss a/c To Depreciation A/c To Finance Charges (Being the depreciation and finance charges transferred to profit and loss account)	Dr.	4,31,455	1,72,582 2,58,873

AN EXRTRACT OF BALANCE SHEET OF B LTD. AT THE END OF TH FIRST YEAR OF LEASE

		(Rs.)
Non- Current Liabilities		14,84,693

Long- term Borrowings (Lessor)		
Non- Current Assets		
Fixed Assets:		
Tangible Assets		
Plant & Equipment on Lease	17,25,820	
Less: Total Depreciation	(17,25,820)	

(II) Journal OF A LTD.

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
Ist Yr Beg	**Lease Recievable A/c** **To Machinery A/c**	**Dr.**	**17,75,540**	**17,75,540**
	(Being Finance Lease recorded at Net Investment)			
Ist Yr End	**Bank A/c Dr.** **To Lease Recievables A/c** **[Rs. 17,75,540 – Rs. 15,41,860*]**		**5,00,000**	**2,33,680**
	To Finance Income A/c [Rs. 5,00,000 – Rs. 2,33,680]			**2,66,320**
	(Being Actual Lease Rental received)			
Ist Yr End	**Finance Income A/c Dr.** **To P & L A/c**		**2,66,320**	**2,66,320**
	(BeingtheT/F of Lease Rental Income to P& L A/c)			

AN EXTRACT OF BALANCE SHEET OF A LTD. AT THE END OF FIRST YEAR OF LEASE

Particulars	Year	Amount	PV Factor	PV
Annual Lease Payments	**1-4**	**5 lakhs**	**2.855**	**14.275**
Guaranteed Residual Value(GRV)	**4**	**1 lakh**	**0.5718**	**0.5718**
Unguaranteed Residual Value(UGRV)	**4**	**1 lakh**	**0.5718**	**0.5718**
Present value of GI			**Total**	**15.4186**

PRESENT VALUE OF GROSS INVESTMENT AT THE END OF 1ST YEAR

Particulars	Years	Amount	PV Factor	PV
Annual Lease Payment	1-4	5 lakhs	2.855	14.275
Guaranteed Residual Value (GRV)	4	1 lakh	0.5718	0.5718
Unuaranteed Residual Value (UGRV)	4	1 lakh	0.5718	0.5718
Present Value of GI			Total	15.4186

(5 MARKS)

d)

STATEMENT OF PROFIT AND LOSS

Particulars	2016	2017	2018
Profit (Loss) before tax	(2,00,000)	1,00,000	1,20,000
Less: Tax Expenses			
Current Tax (W. N. 1)			(8,000)
Deffered Tax (W.N. 2.)	(80,000)	40,000	40,000
Profit (Loss) after tax	(1,20,000)	60,000	72,000

Working Notes:-

1. CALCULATION OF CURRENT TAX

Particulars	2016	2017	2018
Profit (Loss) before tax	(2,00,000)	1,00,000	1,20,000
Less: b/f Losses	-	1,00,000	1,00,000
Taxable Income	(2,00,000)	0	20,000
Current Tax @ 40%	0	0	8,000

CALCULATION OF DEFFERED TAX

Particulars	2016	2017	2018
I. Opening Balance of TD*		2,00,000	1,00,000
J. Addition of TD*	2,00,000	-	-
K. Less: Reversal of TD*	-	1,00,000	1,00,000
L. Total	2,00,000	1,00,000	0
M. Tax Rate	40%	40%	40%
N. DTL/DTA	80,000(DTA)	40,000 (DTA)	0
O. Less: Opening Balance of DTL/DTA	0	80,000(DTA)	40,000 (DTA)
P. Debited / Credited to P7L	80,000Cr.	40,000Dr.	40,000Dr.

Q. Journal Entry	Deffered Tax Assest Dr.Rs.80,000 To P& L A/c 80,000 (Being the recording of DTA)	P& L A/c Dr. Rs.40,000 To deffered Tax Assest A/cRs.40,000 (Being the cancellation of DTA)	P & L A/c Dr. Rs.40,000 To Deffered Tax Assest A/c Rs. 40,000 (Being the cancellation of DTA)

*** Timimg Difference**

(5 Marks)

Ans-2

BALANCE SHEET OF M/S PQR & CO. AS AT 31ST MARCH, 2018

Liabilities	Rs.	Assets	Rs.
Capitals: **P** **Q** **R**	**5,52,000** **3,68,000** **1,84,000**	**Building (1,00,000 + Rs. 60,000)**	**1,60,000**
Sundry Creditors (Rs. 1,20,000 +01,16,000)	**2,36,000**	**Plant & Machinery (Rs. 2,50,000+ Rs. 2,00,000)**	**4,50,000**
Bank Overdraft	**80,000**	**Office Equipment (Rs. 20,000 + Rs. 6,000)**	**26,000**
		Stock in trade (Rs. 1,44,000 + Rs. 1,68,000)	**3,12,000**
		Sundry Debtors (Rs. 1,60,000 + Rs. 2,00,000) **Less: Provision (Rs. 12,000 + Rs. 26,000)**	**3,60,000** (38,000) 3,22,000
		Bank Balance (Rs. 30,000 + Rs. 90,000)	**1,20,000**
		Cash in hand	**30,000**
	14,20,000		**14,20,000**

PARTNER’S CAPITAL ACCOUNTS IN THE BOOKS OF P & CO.

Dr.

Cr.

Particulars	P (Rs.)	Q (Rs.)	Assets	P (Rs.)	Q (Rs.)
To M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3: 1)	37,500	12,500
			By Realization A/c (Profit)	2,11,500	70,500
	4,89,000	2,43,000		4,89,000	2,43,000

PARTNER'S CAPITAL ACCOUNTS IN THE BOOKS OF R & CO.

Dr.

Cr.

Particulars	P (Rs.)	Q (Rs.)	Assets	P (Rs.)	R (Rs.)
To M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2: 1)	1,00,000	50,000
			By Realization A/c (Profit)	68,000	34,000
	3,68,000	1,84,000		3,68,000	1,84,000

Working Notes:-

i. **COMPUTYATION OF PURCHASE CONSIDERATION**

Particulars	P & Co. (Rs.)	R & Co. (Rs.)
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & Machinery	2,50,000	2,00,000
Office equipment	20,000	5,000
Stock in trade	1,44,000	1,68,000
Sundry Debtors	1,60,000	2,00,000

Bank Balance	**30,000**	**90,000**
Cash in hand	**20,000**	**10,000**
Due from R & Co.	**1,00,000**	**-**
(A)		
Less: Liabilities:		
Creditors	**1,20,000**	**1,16,000**
Provision for doubtful debts	**12,000**	**26,000**
Due to P & Co.	**-**	**1,00,000**
Bank Overdraft	**80,000**	**-**
(B)	**2,12,000**	**2,42,000**
Purchase Consideration (A- B)	**7,32,000**	**5,52,000**

II. COMPUTATION OF PROPORTIONATE CAPITAL

M/S PQR & Co. (Purchase Consideration) (Rs. 7,32,000 + Rs. 5,52,000)	**12,84,000**
Less: Goodwill Adjustment	**(1,80,000)**
Total Capital of new firm (Distributed in ration 3: 2: 1)	**11,04,000**
P’s Proportionate Capital	**5,52,000**
Q’s Proportionate Capital	**3,68,000**
R’s Proportionate Capital	**1,84,000**

III. COMPUTATION OF CAPITAL ADJUSTMENT

Particulars	**P (Rs.)**	**Q (Rs.)**	**R (Rs.)**	**Total**
Balance transferred from P & Co.	**4,89,000**	**2,43,000**		**7,32,000**
Balance transferred from R & Co.	**-**	**3,68,000**	**1,84,000**	**5,52,000**
	4,89,000	**6,11,000**	**1,84,000**	**12,84,000**
Less: Goodwill written off in the ration of 3:2:1	**(90,000)**	**(60,000)**	**(30,000)**	**(1,80,000)**
Existing Capital	**3,99,000**	**5,51,000**	**1,54,000**	**11,04,000**
Proportionate Capital	**5,52,000**	**3,68,000**	**1,84,000**	**11,04,000**
Amount to be brought in (paid off)	**1,53,000**	**(1,83,000)**	**30,000**	

REALISATION ACCOUNT IN THE BOOKS OF P & CO.

Dr.

Cr.

<table>
<tr><th colspan="2">Particulars</th><th>(Rs.)</th><th>Particulars</th><th>(Rs.)</th></tr>
<tr><td colspan="2">To Building</td><td>50,000</td><td>By Creditors</td><td>1,20,000</td></tr>
<tr><td colspan="2">To Plant & Machinery</td><td>1,50,000</td><td>By Bank Overdraft</td><td>80,000</td></tr>
<tr><td colspan="2">To Office Equipment</td><td>20,000</td><td>By M/S PQR & Co.
(Purchase Consideration)</td><td>7,32,000</td></tr>
<tr><td colspan="2">To Stock in Trade</td><td>1,20,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Bank balance</td><td>30,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Sundry Debtors</td><td>1,60,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Cash in hand</td><td>20,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Due from R & Co.</td><td>1,00,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Profit on Realization t/t to:</td><td rowspan="2">2,82,000</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>P’s Capital A/c
Q’s Capital A/c</td><td>2,11,500
70,500</td></tr>
<tr><td colspan="2"></td><td>9,32,000</td><td></td><td>9,32,000</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

REALISATION ACCOUNT IN THE BOOKS OF R & CO.

Dr.

Cr.

<table>
<tr><th colspan="2">Particulars</th><th>(Rs.)</th><th>Particulars</th><th>(Rs.)</th></tr>
<tr><td colspan="2">To Building</td><td>60,000</td><td>By Creditors</td><td>1,20,000</td></tr>
<tr><td colspan="2">To Plant & Machinery</td><td>1,60,000</td><td>By Bank Overdraft</td><td>80,000</td></tr>
<tr><td colspan="2">To Office Equipment</td><td>6,000</td><td>By M/S PQR & Co.
(Purchase Consideration)</td><td>7,32,000</td></tr>
<tr><td colspan="2">To Stock in Trade</td><td>1,40,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Bank balance</td><td>90,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Sundry Debtors</td><td>200,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Cash in hand</td><td>10,000</td><td></td><td></td></tr>
<tr><td colspan="2">To Profit on Realization t/t to:</td><td rowspan="2">1,02,000</td><td rowspan="2"></td><td rowspan="2"></td></tr>
<tr><td>Q’s Capital A/c
R’s Capital A/c</td><td>68,000
34,000</td></tr>
<tr><td colspan="2"></td><td>7,68,000</td><td></td><td>7,68,000</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>

(20 Marks)

Ans-3

a)

(I) COMPUTATION OF VALUE OF NET ASSESTS FOR EQUITY SHAREHOLDERS RS. (LAKHS)

Particulars	X Ltd.	Y Ltd.
1. **Total Assets at their Current Values:**		
Goodwill	**0.48**	**0.38**
Net tangible Block	**20.90**	**8.36**
Non- Current Investment	**4.16**	**6.26**
Current Assets	**8.26**	**5.40**
	33.80	**20.40**
2. **Less: Liabilities at their Current Amounts:**		
12 % Debentures [Interest /15%]	**1.60**	**0.80**
Current Liabilities	**1.00**	**2.20**
8 % Pref. Share Capital	**1.20**	**2.40**
	3.80	**5.40**
3. **Net assets for Equity Shareholders [A- B]**	**30.00**	**15.00**

(II) CALCULATIONS OF NO. OF EQUITY SHARES TO BE ISSUED BY PURCHASING COMPANY

Particulars	X Ltd.	Y Ltd.	Total
1. **Total Value (as calculated above)**	**30,00,000**	**15,00,000**	**45,00,000**
2. **Issue Price of an Equity Share**	**15**	**15**	**15**
3. **No. Of equity shares to be issued by [A/B]**	**2,00,000**	**1,00,000**	**3,00,000**
Equity Share Capital @ 8	**16,00,000**	**8,00,000**	**24,00,000**
Security Premium @ rs. 7	**14,00,000**	**7,00,000**	**21,00,000**

III. CALCULATION OF PURCHASING CONSIDERATION

Particulars	X Ltd.	Y Ltd.	Total
Equity shares @ Rs.15	**30,00,000**	**15,00,000**	**45,00,000**
9 % Pref. Shares @ Rs. 125	**1,20,000**	**2,40,000**	**3,60,000**
Total	**31,20,000**	**17,40,000**	**48,00,000**

Note: According to AS- 14, the amount paid by purchasing Company to discharge the debentures holders and the liquation expenses of Vendor Company are not considered as part of purchase consideration.

(15 Marks)

CA Achieving Excellence Together

b)

(A) STATEMENT DETERMINING THE MAX. NUMBER OF SHARES TO BE BOUGHT BACK

Particulars*	Situation 1 (Loan 1800)	Situation 2 Loan 1200)	Situation 3 (Loan 1500)
Shares Outstanding Test	8.25	8.25	8.25
Resources Test	6.25	6.25	6.25
Debt Equity Ratio	Nil	3.75	Nil
Maximum number of shares that can be			
Bought back [least of above]	Nil	3.75	Nil

JOURNAL ENTRIES FOR BUY (APPLICABLE ONLY FOR SITUATION 2)

(RS. IN CRORES)

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1	Equity Share Buy Back A/c Dr. To Bank A/c (Being buy back of 3.75 crores shares of Rs. 10 each @ Rs. 30 per share)	112.50	112.50
2	Equity Share Capital A/c Dr. Security Premium A/c Dr. To Equity Share Buy back A/c (Being cancellation of shares bought back)	37.50 75.00	112.50
3	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being transfer of free reserves to capital redemption reserve to the extend of nominal value of capital redeemed through free reserves)	37.50	37.50

Note: Under situation 1 & 3 the company does not quality for buy back of shares as per the provision of Section 68 of The Companies Act, 2018.

Working Notes:

i. **Shares Outstanding Test:**

Max. No. of Shares that can be bought back = 25% of 33 = 8.25 crores

ii. **Resource Test:**

Max. Number of shares that can be bought back

= [25% of (Paid up Capitals +Free Reserves)/ Buy Back Price per share

= [25 % (Rs. 330+ 420)/Rs.30 = 6.25 crores

Particulars*	Situation1	Situation 2	Situation 3
1. Loan Funds (Rs. In crores)	1,800	1,200	1,500
2. Minimum Equity to be maintained after buy back in the ratio of 2:1 (Rs. In crores)	900	600	750
3. Present Equity Shareholders Funds (Rs. In crores)	750	750	750
4. Future Equity Shareholder's Funds	N.A.	712.50 (750-37.5)	N.A.
5. Maximum permitted buy back of Equity (Rs. In crores) [(b)-(c)]	Nil	112.50	Nil
6. Maximum number of shares that can be bought back @ Rs. 30 per shares (shares in crores) [(d)/Rs. 30)]	Nil	3.75	Nil

Note: Infrastructure Development Reserve and Capital Redemption Reserve are not free reserves.

Step 2: Max No of Equity Shares that can be bought back

= Least of 8.25 or 6.25 or 3.75

= Max. 3.75 crores Shares can be bought back

Notes: Let X= Amount to be t/f to CRR; Y = Maximum permitted buyback of Equity

Y = 750- X- 600 ...Eq. I

X = (Y/30) x 10 = Y/3 ... Eq. II

By Solving both the Equation

X = Rs. 37.5 crores, Y = Rs. 150 – Rs. 37.5 = Rs. 112.5 crores

(5 Marks)

Ans-4

a)

BALANCE SHEET OF CANHD BANK LTD. AS ON 31ST MARCH, 2018

Particulars	Schedule No.	As on 31st March 2018 (Rs.'000)	As on 31st March 2017 (Rs.'000)
Capital and liabilities			
Capital	1	19,00,000	
Reserve & Surplus	2	20,24,000	
Deposits	3	13,75,000	
Borrowing	4	7,72,30	
Other liabilties & provisions	5	1,14,20	
Total		61,86,00	
Assets:			
Cash abd balance with			
Reserve Bank Of India	6	7,50,00	
Balance with bank and Money at			
Call and short notes	7	7,23,50	
Investments	8	16,71,30	
Advances	9	19,60,00	
Fixed Aseests	9	19,60,00	
Other Aseests	10	6,35,00	
Total		61,86,00	
Contigent Liabilities	12	5,65,00	
Bills for collection		4,35,00	

CANHD BANK LTD.

PROFITAND LOSS ACCOUNT FOR THE YEAR ENDED 31.3.2018

Particulars	Schedule No.	As on 31st March 2018 (Rs.'000)	As on 31st March 2017 (Rs.'000)
I. Income:			
Intersest & Discount	13	10,00,000	
Other income	14	98,00	

		10,98,00	
II. Expenditure:			
Interest Expended	**15**	**79,50**	
Operating Expenses	**16**	**4,59,50**	
		5,39,000	
III. Profit/ Loss:			
Net Profit for the year		**5,59,00**	
Profit b/f		**65,00**	
		6,24,00	
IV. Appropraitness:			
Transfer to Statutory Resrves @ 25%		**1,39,75**	
Balances carried over to Balance Sheet		**4,84,25**	
		6,24,00	

	As on 31st March 2018 (Rs.'000)	**As on 31st March 2017 (Rs.'000)**
Schedule 1- Capital		
III For Other Banks		
Authorised Capital: Shares of Rs… each	**-**	
Issued Capital : Shares of Rs…. each	**-**	
Subscribed Capital: Shares of Rs …. each	**-**	
Called up Capital: Shares of Rs …. each		
	19,00,000	
Total	**19,00,000**	
Schedule 2- Reserves & Surplus		
I Statutory Reserves		
Opening Balance	**14,00,000**	
Additions during the year	**1,39,75**	
	15,39,75	
V. Balance in Profit and Loss Account	**4,84,25**	
Total	**20,24,00**	
Schedule 3- Deposits		
A I. Demand Deposits	9,95,00	
II. Saving Bank Deposits	1,50,00	
III. Trerm Deposits	2,30,50	
Total	13,75,50	
Svhedule 4- Borrowings		
I. Borrowing in India		
II. Other banks	7,72,30	
Total	7,72,30	

Schedule 5- Other Liabilities and Provisions		
IV. Other liabilities including provisions:		
Rebate on bill discounted	40,00	
Employees Security Deposits	74,20	
Total	1,14,20	
Schedule 6 – Csh and Cash Balance with Reserve Bank Of India		
I. Cash in hand (inclusing foreign Currency Notes)	**3,50,00**	
II. Balances with Resrve Bank Of India	**4,00,00**	
Total	**7,50,000**	
Schedule 7 – Balance with Banks & Money at call & Short Notice		
I. India		
(i) Balance with banks	**4,63,50**	
(ii) Money at call at short notice	**2,60,00**	
Total	**7,23,50**	
Schedule 8- Investments		
1. Investments in India in		
(i) Government securities	**9,43,70**	
(ii) Shares (assumed)	**5,56,30**	
(iii) Gold	**1,51,30**	
(iv) Silver	**20,00**	
Total	**16,71,30**	
Schedule 9- Advances		
A. (i) Bills purchased and discounted	**1,25,00**	
(ii) Cash credits, overdrafts and loans repayable on demand (1,81,000 + 2,500)	**18,35,00**	
	19,60,00	
Schedule 10- Fixed Assests		
I. Premises		
At cost as on 31st March, 2015	**6,50,00**	
Deprecaition to date [5000+800]	**58,00**	
	5,92,00	
II. Other fixed assets (including Furniture and Fixture)		
At cost as on 31st March, 2015	**50,00**	
Depreciation to date [500+200]	**7.00**	
	43,00	
Total (I & II)	**6,35,00**	
Schedule 11- Other Assets		
I. Inter- office adjustment (net)	**2,00,000**	
II. Interest accrued on Investments	**2,46,20**	
	4,46,20	
Schedule 12- Contigent Liabilities		

V. Acceptances, endorsement and other obligations	5,65,00	
Total	5,65,00	
Schedule 13- Interest Earned		
I. Interest/ discount on advance, bills [62,000+42,000+-24,620 (Accrued) – 40,00 (Rebate)	7,53,80	
II. Income on Investments	2,46,20	
Total	10,00,000	
Schedule 14- Other Income		
I. Commison, Exchange and Brokerage	2,53,00	
II. Profit on sale on investments		
Less: Loss on sale on investments	(-) 2,00,00	
	53,00	
VII. Miscellaneous Income		
Rent and Other Reciepts	45,00	
Total	98,00	
Schedule 15- Interest Earned		
I. Interest On Deposits	79,50	
Total	79,50	
Schedule 16- Operating Expenses		
I. Payments to and provisions in employees	2,12,00	
II. Rent, Taxes and Lighting	1,20,00	
V. Depreciation on bank's property	55,00	
VI Directors's fees and expenses	10,00	
VII. Auditor's Fees and expenses	50,00	
IX Postage, telegramd, Telephones etc.	12,50	
Total	4,59,50	

(10 Marks)

4(b) Ans:

LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT

Receipts		Rs.	Payments		Rs.
Cash at Bank		60,000	Liquidation Expenses		4,600
Assets realised:			Liquidator's remuneration		30,400
Sundry Debtors	1,60,000		Debenture holders:		

Stock	**1,20,000**		**10% Debentures**	**2,00,000**	
Plant & Machinery	**3,60,000**	**6,40,000**	**Interest accured**	**15,000**	**2,15,000**
Surplus from Land & Buildings:			**Preferential Creditiors**		**30,000**
Amount realised	**3,40,000**		**Unsecured Creditiors**		**3,70,000**
Less: Secured Creditiors	**1,00,000**	**2,40,000**	**Preference Shareholders:**		
			Capital	**2,00,000**	
			Arrear Dividend	**40,000**	**2,40,000**
			Equity Shareholders:		
			Rs. 17.50 per share on 2,000 shares	**35,0000**	
			Rs. 2.50 per share on 6,000 shares	**15,0000**	**50,000**
		9,40,000			**9,40,000**

Working Notes:

Particulars		**Rs.**
(i)	**Liquidator's remuneration:**	
	3% on Assets realised (3% of Rs. 9,80,000)	**29,400**
	2% of the amounts distributed among	
	Equity Shareholders (Rs. 51,000 x 2/102)	**1,000**
		30,400
(ii)	**Interest accured on 10% debentures**	
	Interest accured as on 31st March,	**10,000**
	Interest accured upto the date of payment (upto 30th June)	**5,000**
		15,000
(iii)	**Amount payable to Equity Shareholders**	
	A Equity Share Capital	**5,10,000**
	B Less: Surplus available for Equity Shareholders	**50,000**
	C Loss to be made borne by them	**4,60,000**
	D Loss per Equity Share (Rs. 4,60,000/8,000)	**57.50**
	Amount payable to Equity shareholders:	
	Each Equity Share of Rs. 75 paid up	**17.50**
	Each Equity Share of Rs. 60 paid up	**2.50**

(10 Marks)

Ans-5

a)

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD AS AT 31.3.2018

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share capital	1	10,00,000
(b) Reserves and Surplus	2	9,46,000
(2) Minority Interest	(V)	5,01,000
(3) Non- Current Liabilities		
(a) Long term Borrowings [12% Debenture]	3	3,10,000
(4) Current Liabilities		
(a) Trade Payables [5,45,000 + 1,80,000]	3	7,25,000
(b) Short- term Provisions [Proposed Dividend]`		1,50,000
Total		36,32,000
II. Assets		
(1) Non – Current Assest		
(a) Fixed Assets		
Tangible Assets [12,40,000+4,92,000]	3	17,32,000
Intangible Assets		
(b) Non- Current Investments		-
(2) Current – Assets		
(a) Inventories	3	3,90,000
(b) Trade Recievables [10,10,000 + 1,00,000]	3	11,10,000
c) Cash and Cash Equivalents	3	4,00,000
Total		36,32,000

Notes to Account:

Particulars	(Rs.)
1. Share Capital	
100000 Equity Shares of Rs. 10 each	10,00,000
2. Reserve and Surplus	
General Reserve	2,25,200
Profit & Loss Account	1,08,300
Capital Reserve on Consolodation	6,12,500
	9,46,000

3. CONSOLIDATED BALNACES

Particulars	Building	Machinery	Inventories	Trade Recievable	B/R	Cash & bank	Trade Creditors	B/P	Debentures
H Ltd.	6,00,000	2,00,000	1,00,000	4,00,000	1,00,000	1,65,000	3,00,000	1,40,000	2,00,000
S Ltd.	2,70,000	3,70,000	3,00,000	9,10,000	1,00,000	2,25,000	5,35,000	1,40,000	2,00,000
Total	8,70,000	5,70,000	4,00,000	13,10,000	2,00,000	3,90,000	8,35,000	2,80,000	4,00,000
Less:Unrealised Profit	-	(78,000)	(10,000)	-	-	-	-	-	-
Less: Mutual Owings	-	-	-	(3,00,000)	(1,00,000)	-	(2,90,000)	(100,000)	(90,000)
Add: Appreciation	4,00,000	-	-	-	-	-	-	-	-
Less: Short Depreciation	(30,000)	-	-	-	-	-	-	-	-
Remittance in trasit	-	-	-	-	-	10,000	-	-	-
Consolidated Balances	12,40,000	4,92,000	3,90,000	10,10,000	1,00,000	4,00,000	5,45,000	1,80,000	3,10,000

4. Contigent Liability

= Total Contigent Liability – Internal Contigent Liability

= (Rs. 50,00 + Rs. 25,000) – (Rs. 40,000 + Rs. 5000)

= Rs. 30,000

Working Notes:

(i) GENERAL RESERVES ACCOUNTS OF S LTD.

Dr.

Cr.

Particulars	Rs.	Particulars	(Rs.)
To Equity Share Capital (Bonus)	2,00,000	By bal c/d	6,00,000
To Bal c/d	4,48,000	By Profit and Loss A/c (b.f)	48,000
	6,48,000		6,48,000

(ii)PROFIT AND LOSS ACCOUNT OF S LTD.

Dr.

Cr.

Particulars	Rs.	Particulars	(Rs.)
To Final Dividfend for prevoius year	1,00,000	By bal b/d	2,00,000
To General Reserve	48,000	By Profit earned (b.f)	1,00,000
To Bal c/d	1,52,000		3,00,000

(III) CALCULATION OF CHANGE IN THE VALUE OF FIXED ASSET

Particulars	(Rs.)
A. Book Value as on opening date	3,00,000
B. Depreciation upto date of Revaluation [Rs. 3,00,000 x 10/100 x 3/12]	(7,500)
C. Book Value as on the date of Revalaution (A-B)	2,92,000
D. Revalued figure as on the date of Revalaution	6,92,500
E. Increase in Value (D – C)	4,00,000
F. Short Depreciation since the date of Revaluation [Rs. 4,00,000 x 10/100 x 9/12]	30,000

(IV) ANALYSIS OF PROFITS AND RESERVES OF S LTD.

Particulars	Capital Profit (Rs.)	Revenue Profit (Rs.)	Revenue Resrves (Rs.)
General Reserve	6,00,000		
Less: Bonus Shares	(2,00,000)		
Reserve created	12,000		36,000
Profit and Loss A/c	2,00,000		
Less: Final Dividend	(1,00,000)		
Profit earned	25,000	75,000	
Less: Transfer of general Reserve	(12,000)	(36,000)	
Add: Increase in value of fixed Assets	4,00,000		
Less: Short Provision of Depricaition		(30,000)	
Total	9,25,000	9,000	36,000
Share of Minority @ 30%	2,77,500	2,700	10,800
Share of Holding Company @ 70 %	6,47,500	6,300	25,200

(V) MINORITY INTEREST

Particulars	(Rs.)
Paid up value of Equity shares (including Bonus Shares)	2,10,000
Share in Capital Profits of S Ltd.	2,77,500
Share in Revenue Profits of S Ltd.	2,700
Share in Revenue Reserves of S Ltd.	10,800
Total	5,01,000

(VI) GOODWILL/ CPAITAL RESERVE ON CONSOLODATION

Particulars	(Rs.)
A. Corrected Net Cost of Investment [As per Investment A/c]	5,25,000
B. Holding Co's Share in Net Assets of Subsidiary Co.	
(a) Paid up Value of equity shares (including Bonus Share)	4,90,000
(b) Share of Holding Co. in Capital Profit of Subsidiary Co.	6,47,500
	11,37,500
C. Capital Reserve (B- A)	6,12,500

(VII) CONSOLIDATED PROFIT AND LOSS ACCOUNT OF H LTD.

Particulars	(Rs.)
A. Balance as given in the Balance Sheet of H Ltd.	3,10,000
B. Add: (a) Holding Co's Share in Revenue Profit of S Ltd.	6,300
(b) Profit on sale of shares	1,00,000
(c) Profit on Debentures [90,000 (Face value) – 80,000 (Cost)]	10,000
C.Less: (a) Dividend out of pre-acquisition profit wrongly credited to this account instead on Investment Account	(80,000)
(b) Unrealized Profit on inventories [20% of 3,00,000 x 20/120]	(10,000)
(c) Unrealized Profit on Machine [(2,40,000 x 1/3) – (80,000 x 10% x 3/12)]	(78,000)
(d) Proposed Dividend	(1,50,000)
4. Closing Balance to be taken to the Consolidated Balance Sheet (A+B –C)	1,08,300

(VIII) CONSOLIDATED REVENUE RESERVE ACCOUNT

Particulars	Rs.
1. Balance as given in the Balance Sheet of H Ltd.	2,00,000
2. Add: Holding Co's Share in Revenue Reserves Of S Ltd.	25,200
3. Closing Balance to be taken to be the consolidated Balance Sheet (A+B)	2,25,200

(IX) INVESTMENT IN SHARES OF S LTD. ACCOUNT

Dr.

Cr.

Date	Particulars	(Rs.)	Date	Particulars	Rs.
1.7.2017	To Bank A/c	6,80,000	31.3.2018	By Profit and Loss A/c [Dividend]	80,000
31.3.2018	To profit and Loss A/c 1,75,000 – [(6,80,000 – 80,000)* 7,000/56,000)]	1,00,000		By Bank A/c [6,80,000 – 5,05,000)	1,75,000
		7,80,000			7,80,000

b) Fair Value of an ESPP = Rs. 56 – Rs. 50= Rs. 6

Number of shares issued = 400 employees x 100 shares per employee = 40,000 shares

Fair Value of ESPP will be recognizes as expenses in the year 2018-2019

= 40,000 shares x Rs. 6 = Rs. 2,40,000.

Vesting period = 1 month

Expenses recognized in 31.03.2017 = Rs. 2,40,000

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
30.04.2018	Bank [Shares x Rs. 50] A/c Dr. Employees' Compensation Expenses A/c Dr.		20,00,000 2,40,000	
	To Share capital A/c (40,000 shares x Rs. 10) To Security Premium A/c(40,000shares x Rs. 46) (Being Shares issued under ESPP @ Rs. 50)			4,00,000 18,40,000

Ans-6

a. **Solution (i)**

1.Collection of cheques by the marketing personnel is an adjusting events as per AS 4 ' Contingencies and Events Occurring after the Balance Sheet Date'.

2. Reason: Handing Over of cheques by the stockiest to the marketing employees discharges the liability of the stokist. Therefore, cheques collected by the marketing personnel of the company on or before 31-3-2018 requires adjustment from the Stockists Account i.e. from 'Trade Receivables Alc' even though these cheques (dated on or before 31-3-2018) are ' Trade Receivables A/c' even in the month of April, 2018 in the normal course.

3. Disclosure: Such 'cheques in hand will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company from such cheques.

Solution (II) :

1. The collection of cheques after balance sheet date is not an adjusting event since Collection of after 31.3.2018 does not represent any condition exeisting on the Balance Sheet date i.e. 31stNarch.
2. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st march or before as per AS4.
3. The collection of cheques after Balance Sheet date does not represent any material change affecting financial position of the enterprise; hence no disclosure in the Director's report is necessary.

b)

REVENUE, EXPENSES & PROFIT RECOGNIZED IN THE STATEMENT OF PROFIT & LOSS

Particulars	**Upto the reporting date**	**Recognized in prior years**	**Recognized in current years**
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,000 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,000 x 74%)	6,808	2,340	4,468
Expenses (8,000 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,000 x 100%)	9,200	6,808	2,392
Expenses (8,000 x 100%)	8,200	6,068	2,132
Profit	1000	740	1000

Working notes:

Particulars	**Year 1**	**Year 2**	**Year 3**
Revenue afte consider variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093 (6,168-100)	6,068 (8,100+100)	8,200
Degree of completion (B/A)	**26%**	**74%**	**100%**

(c) Whether the three traditional divisions of the company can be combined into one segment for financial reporting, after they have been merged for internal reporting purposes? To SOLUTION this PROBLEM several factors have to be considered. These are:

Are the risks and returns to switchgear, switchboard and motors significantly different from each other? Or can they be for all practical purposes combined into one basket of traditional engineering/ electrical goods? Factors that should be considered in determining whether products and services are related include:

- the nature of the products or services:

- the nature of the production processes:

- the type or class of customer for the products or services: and

- the methods used to distribute the products or provide the services

A single business segment does not include products and services with significantly different risks and returns. While there may be dissimilarities with respect to one or several of the above factors, the products and services included in a single business segment are expected to be similar with respect to a majority of the factors.

The predominant sources of risks affect how most enterprises are organized and managed. Therefore, the organizational structure of an enterprise and its internal financial reporting system is normally the basis for identifying its segments. If in the given situation, it can be demonstrated that the traditional products faced the same risks and return situation (i.e., they are not significantly different) and that the internal reporting has actually changed, then it should be possible to combine the three divisions for segment reporting purposes.

Based on the analysis above, the following position would emerge:

(a) Telecom and software development activities cannot be combined with the traditional productline (switch gear etc) and made into one segment.

(b) Subiect to fulfillment of definition criteria laid down in AS 17, traditional product lines can be combined into one segment.

(c) Changes in identification of segments would not constitute a change in accounting policy because there is no change in the policy parse, the policy for the current year continues to he to determine segments based on the internal reporting structure and the quidelines set out in AS 17.

(d) As per AS 9 “Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the 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.

In case (i): The sale is complete but delivery has been postponed at buyer's request. M/s Paper Products Ltd. should recognize the entire sale of 60,000 for the year ended 31st March, 2018.

In case (ii): 20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for Rs. 1,20,000 (80% of Rs. 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

In case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, in case (iii) revenue should be recognized for the total sales amounting Rs. 1,20,000 as the time period for rejecting the goods had expired.

In case (iv): Trade discounts given should be deducted in determining revenue. Thus * 39,000 should be deducted from the amount of turnover of Rs. 7,80,000 for the purpose of recognition of revenue.

Thus, revenue should be Rs. 7,41,000. Thus, total revenue amounting Rs. 10,41,000 (60,000 + 1,20,000 + 1,20,000 + 7,41,000) will be recognized for the year ended 31st March, 2018 in the books of M/s Paper Products Ltd.

(e) As per AS 24, 'Discontinuing Operation'. Mere gradual phasing is not considered as discontinuing operation. Examples of activities that do not necessarily satisfy criterion of the definition, but that might do so in combination with other circumstances, include:

(i) Gradual or evolutionary phasing out of a product line or class of service.

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

(iii) Closing of a facility to achieve productivity improvements or other cost savings. A Reportable business segment or geographical segment as defined in AS-17. would normally satisfy criteria (b) of the definition.

In view of the above the solutions are:

(i) No.The companys' strategic plan has no final approval from the board through a resolution and no specific time bound activities like shifting of Assets and employees and above all the new segament commercial vehicle production line and factory has started.

(ii) No. The resolution is salient about stoppage of the Car segment in definite time period. Though, some assets sales and transfer proposal was passed through a resolution to the new factory, closure road map and new segment starting road map is missing. Hence, AS-24 will not be applicable.

(iii) Yes. Phased and time bound programme resolved in the board clearly indicates the closure of the passenger car segment in a definite time frame and clear road map. Hence, this action will attract AS-24 compliance.

CA
Achieving Excellence Together