

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
For May, 2018 EXAMINATION**

A. Applicable for May, 2018 Examination

I. Companies Act, 2013

Relevant sections of the Companies Act, 2013 notified up to 31st October, 2017 will be applicable for May, 2018 Examination.

II. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for May, 2018 examination.

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the accounting standards relevant for Paper 5:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 4	Footnote to AS 4	Pursuant to AS 29, Provisions, Contingent Liabilities and Contingent Assets, becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of this Standard that deal with contingencies (viz. paragraphs	All paragraphs of this Standard that deal with contingencies are applicable only to the extent not covered by other Accounting Standards prescribed by the Central Government. For example, the impairment of financial assets such	Footnote has been modified.

		1(a), 2, 3.1, 4 (4.1 to 4.4), 5 (5.1 to 5.6), 6, 7 (7.1 to 7.3), 9.1 (relevant portion), 9.2, 10, 11, 12 and 16) stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards. For example, impairment of receivables (commonly referred to as the provision for bad and doubtful debts), would continue to be covered by AS 4.	as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	
	8.5	There are events which, although they take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. Such items include the amount of dividend proposed or declared by the enterprise after the balance sheet date in respect of the period covered by the financial statements.	There are events which, although take place after the balance sheet date, are sometimes reflected in the financial statements because of statutory requirements or because of their special nature. For example, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognized as a liability at the balance sheet date because no obligation exists at	No liability for proposed dividends must be created now. Such proposed dividends are to be disclosed in the notes.

			that time unless a statute requires otherwise. Such dividends are disclosed in the notes.	
	14	Dividends stated to be in respect of the period covered by the financial statements, which are proposed or declared by the enterprise after the balance sheet date but before approval of the financial statements, should be adjusted.	If an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such dividends should be disclosed in notes.	No liability for proposed dividends should be created now. Such proposed dividends are to be disclosed in the notes.
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation

		Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	n Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'miscellaneous expenditure' in Schedule III to the Companies Act, 2013
AS 29	35 (An extract)	The amount of a provision should not be discounted to its present value.	The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. Periodic unwinding of discount should	Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein.

			be recognized in the statement of profit and loss.	
	73		<u>Transitional Provisions</u> All the existing provisions for decommissioning, restoration and similar liabilities (see paragraph 35) should be discounted prospectively, with the corresponding effect to the related item of property, plant and equipment.	Discounting of above existing provisions and similar liabilities should be prospectively, with the corresponding effect to the related item of property, plant and equipment.

III. Provisions of the Companies Act, 2013 related with Liquidation of Companies

As per Section 2 (94A) of the Companies Act, 2013, winding up means winding up under this Act. As per section 270, the provision of Part I should apply to the winding up of a company by the Tribunal under this Act.

Circumstances in which Company may be Wound Up by Tribunal [Section 271]

- (a) The company has resolved that the company be wound up by the Tribunal.
- (b) The company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality
- (c) The Registrar or any other person authorized by the Central Government by notification under this Act can make an application to tribunal. The Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.
- (d) The company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding 5 consecutive financial years.
- (e) The Tribunal is of the opinion that it is just and equitable that the company should be wound up.

A company may file petition for winding up under section 272 of the Companies Act, 2013. Petition for winding up to Tribunal can be made by the company, any contributory or contributories, the registrar, any person authorized by Central Govt. in that behalf or if case affairs of the company have been conducted in a Fraudulent manner, by the Central Government or a State Government.

Petition by Contributory

A contributory should be entitled to present a petition for the winding up of a company. Shares in respect of which he is a contributory were either originally allotted to him or have been held by him for at least 6 months during the 18 months immediately before the commencement of the winding up and registered in his name or have transferred to him through the death of a former holder.

Petition by Registrar

The Registrar should be entitled to present a petition for winding up under section 271, except on the grounds specified in section 271 (a) or (e). The Registrar should obtain the previous sanction of the Central Government to the presentation of a petition. The Central Government should not accord its sanction unless the company has been given a reasonable opportunity of making representations.

Petition by Company

A petition presented by the company for winding up before the Tribunal should be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

A copy of the petition made under this section should also be filed with the Registrar and the Registrar should, without prejudice to any other provisions, submit his views to the Tribunal within 60 days of receipt of such petition.

A company may be wound up voluntarily [Section 304¹],:

- (a) if the company in general meeting passes a resolution requiring the company to be wound up voluntarily as a result of the expiry of the period for its duration, if any, fixed by its articles or on the occurrence of any event in respect of which the articles provide that the company should be dissolved; or
- (b) if the company passes a special resolution that the company be wound up.

Liquidators' Statement of Account

In case of Compulsory wound-up, the Company Liquidator should keep proper books in such manner, as may be prescribed, in which he should cause entries or minutes to be made of proceedings at meetings and of such other matters as may be prescribed.

¹Applicable until 31 March 2017; with effect from 1 April 2017, Section 59 of the Insolvency and Bankruptcy Code, 2016 is applicable.

Any creditor or contributory may, subject to the control of the Tribunal, inspect any such books, personally or through his agent.

While preparing the liquidator's statement of account, receipts are shown in the following order:

- (a) Amount realised from assets are included in the prescribed order.
- (b) In case of assets specifically pledged in favour of creditors, only the surplus from it, if any, is entered as 'surplus from securities'.
- (c) In case of partly paid up shares, the equity shareholders should be called up to pay necessary amount (not exceeding the amount of uncalled capital) if creditors' claims/claims of preference shareholders can't be satisfied with the available amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying of creditors.
- (d) Amounts received from calls to contributories made at the time of winding up are shown on the Receipts side.
- (e) Receipts per Trading Account are also included on the Receipts side.
- (f) Payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order:

- (a) Legal charges;
- (b) Liquidator's expenses;
- (c) Debenture holders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);
- (d) Creditors:
 - (i) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge);
 - (ii) Unsecured creditors;
- (e) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and
- (f) Equity shareholders.

Commencement of Winding Up by Tribunal [Section 357]

Where, before the presentation of a petition for the winding up of a company by the Tribunal, a resolution has been passed by the company for voluntary winding up, the winding up of the company should be deemed to have commenced at the time of the passing of the resolution, and unless the Tribunal, on proof of fraud or mistake, thinks fit

to direct otherwise, all proceedings taken in the voluntary winding up should be deemed to have been validly taken.

In any other case, the winding up of a company by the Tribunal should be deemed to commence at the time of the presentation of the petition for the winding up.

Exclusion of Certain Time in Computing Period of Limitation [Section 358]

Notwithstanding anything in the Limitation Act, 1963, or in any other law for the time being in force, in computing the period of limitation specified for any suit or application in the name and on behalf of a company which is being wound up by the Tribunal, the period from the date of commencement of the winding up of the company to a period of one year immediately following the date of the winding up order should be excluded.

Statement of Affairs

In case of winding up by Tribunal, Section 272(5) of the Companies Act, 2013 provides that a petition presented by the company for winding up before the Tribunal shall be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

In accordance with Section 274(1), where a petition for winding up is filed before the Tribunal by any person other than the company, the Tribunal shall, if satisfied that a prima facie case for winding up of the company is made out, by an order direct the company to file its objections along with a statement of its affairs within thirty days of the order in such form and in such manner as may be prescribed. The Tribunal may allow a further period of thirty days in a situation of contingency or special circumstances.

The broad lines on which the Statement of Affairs is prepared are the following —

- (1) Include assets on which there is no fixed charge at the value they are expected to realise. Students should note to include calls in arrear but not uncalled capital.
- (2) Include assets on which there is a fixed charge. The amount expected to be realised would be compared with the amount due to the creditor concerned. Any **surplus** is to be extended to the other column. A **deficit** (the amount owed to the creditor exceeding the amount realisable from the asset) is to be added to unsecured creditors.
- (3) The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors (except secured creditors already covered by specifically mortgaged assets).
- (4) From the total assets available, the following should be deducted one by one:-
 - (i) Preferential creditors,
 - (ii) Debentures having a floating charge, and
 - (iii) Unsecured creditors.

If a minus balance emerges, there would be deficiency as regards creditors, otherwise there would be a surplus.

- (5) The amount of total paid-up capital (giving details of each class of shares) should be added and the figure emerging will be deficiency (or surplus) as regards members.

Note: Statement of affairs should accompany eight lists:

List A Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes, salaries, wages and otherwise.

List D List of debenture holders secured by a floating charge.

List E Unsecured creditors.

List F List of preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

Deficiency Account

The official liquidator will specify a date for period (minimum three years) beginning with the date on which information is supplied for preparation of an account to explain the deficiency or surplus. On that date either assets would exceed capital plus liabilities, that is, there would be a reserve or there would be a deficit or debit balance in the Profit and Loss Account. The Deficiency account is divided into two parts:

1. The first part starts with the deficit (on the given date) and contains every item that increases deficiency (or reduces surplus such as losses, dividends etc.).
2. The second part starts with the surplus on the given date and includes all profits.

If the total of the first exceeds that of the second, there would be a deficiency to the extent of the difference, and if the total of the second part exceeds that of the first, there would be a surplus.

Overriding Preferential Payments [Section 326]: In the winding up of a company under this Act, the following debts should be paid in priority to all other debts:

- a. workmen's dues; and
- b. where a secured creditor has realized a secured asset, so much of the debts due to such secured creditor as could not be realized by him or the amount of the workmen's portion in his security (if payable under the law), whichever is less, pari- passu with the workmen's dues:

Explanation: For the purposes of this section, and section 327 -

- a) **Workmen**, in relation to a company, means the employees of the company, being workmen within the meaning of Section 2 (s) of the Industrial Disputes Act, 1947;
- b) **Workmen's dues**, in relation to a company, means the aggregate of the following sums due from the company to its workmen, namely:
 - (i) All wages or salary including wages payable;
 - (ii) all accrued holiday remuneration becoming payable to any workman
 - (iii) unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company or unless the company has, at the commencement of the winding up, under such a contract with insurers as is mentioned in section 14 of the Workmen's Compensation Act, 1923 (19 of 1923), rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any workman of the company;
 - (iv) all sums due to any workman from provident fund, pension fund, gratuity fund or any other fund maintained by the company.

The following payment should be made in priority to secured creditors:

- (i) All wages or salary including wages payable;
 - (ii) all accrued holiday remuneration becoming payable to any workman
 - (iii) If the above payments are payable for a period of 2 years preceding the winding up order then the same shall be paid in priority to all other debts (including debts due to secured creditors), within a period of 30 days of sale of assets and shall be subject to such charge over the security of secured creditors.
- c) **Workmen's portion**, in relation to the security of any secured creditor of a company, means the amount which bears to the value of the security the same proportion as the amount of the workmen's dues bears to the aggregate of the amount of workmen's dues and the amount of the debts due to the secured creditors.

Preferential Creditors

In a winding up there should be paid in priority to all other debts subject to the provisions of section 326.

Preferential Creditors are as follows:

- a. **Government Taxes:** All revenues, taxes, cess and rates due from the company to the Central Government or a State Government or to a local authority at the relevant date, and having become due and payable within the twelve months immediately

before that date;

- b. **Salary and Wages:** All wages or salary including wages payable for time or piece work and salary earned wholly or in part by way of commission of any employee in respect of services rendered to the company and due for a period not exceeding four months within the 12 months immediately before the relevant date, subject to the condition that the amount payable under this clause to any workman should not exceed such amount as may be notified;
- c. **Holiday Remuneration:** All accrued holiday remuneration becoming payable to any employee, or in the case of his death, to any other person claiming under him, on the termination of his employment before, or by the winding up order, or, as the case may be, the dissolution of the company;
- d. **Contribution under ESI Act:** Unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company, all amount due in respect of contributions payable during the period of twelve months immediately before the relevant date by the company as the employer of persons under the Employees' State Insurance Act, 1948 or any other law for the time being in force;
- e. **Compensation in respect of death or disablement:** Unless the company has, at the commencement of winding up, under such a contract with any insurer as is mentioned in section 14 of the Workmen's Compensation Act, 1923, rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any employee of the company: Where any compensation under the said Act is a weekly payment, the amount payable under this clause should be taken to be the amount of the lump sum for which such weekly payment could, if redeemable, be redeemed, if the employer has made an application under that Act;
- f. **PF, Pension Fund or Gratuity Fund:** All sums due to any employee from the provident fund, the pension fund, the gratuity fund or any other fund for the welfare of the employees, maintained by the company; and
- g. **Expenses of Investigation:** The expenses of any investigation held in pursuance of sections 213 and 216, in so far as they are payable by the company.

Where any advance payment has been made to any employee of a company on account of wages or salary or accrued holiday remuneration himself by some person for that purpose. The person by whom the money was advanced should have a right of priority in respect of the money so advanced and paid-up to the amount. The sum in respect of which the employee or other person in his right would have been entitled to priority in the winding up has been reduced by reason of the payment having been made.

The debts enumerated in this section should—

- h. rank equally among themselves and be paid in full, unless the assets are insufficient to meet them, in which case they should abate in equal proportions; and

- i. so far as the assets of the company available for payment to general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.

The debts under this section should be discharged forthwith so far as the assets are sufficient to meet them, subject to the retention of such sums as may be necessary for the costs and expenses of the winding up.

In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months immediately before the date of a winding up order, the debts to which priority is given under this section should be a first charge on the goods or effects so distrained on or the proceeds of the sale thereof: Provided that, in respect of any money paid under any such charge, the landlord or other person should have the same rights of priority as the person to whom the payment is made. Any remuneration in respect of a period of holiday or of absence from work on medical grounds through sickness or other good cause should be deemed to be wages in respect of services rendered to the company during that period.

Explanations: For the purposes of this section,

- **Accrued Holiday Remuneration includes**, in relation to any person, all sums which, by virtue either of his contract of employment or of any enactment including any order made or direction given thereunder, are payable on account of the remuneration which would, in the ordinary course, have become payable to him in respect of a period of holiday, had his employment with the company continued until he became entitled to be allowed the holiday;
- **Employee** does not include a workman; and
- **Relevant Date** means in the case of a company being wound up by the Tribunal, the date of appointment or first appointment of a provisional liquidator, or if no such appointment was made, the date of the winding up order, unless, in either case, the company had commenced to be wound up voluntarily before that date under the Insolvency and Bankruptcy Code, 2016.

Effect of Floating Charge [Section 332]

Where a company is being wound up, a floating charge on the undertaking or property of the company created within the 12 months immediately preceding the commencement of the winding up, should be invalid unless it is proved that the company immediately after the creation of the charge was solvent except for the amount of any cash paid to the company at the time of and in consideration for or subsequent to the creation of the charge together with interest on that amount at the rate of 5 per cent per annum or such other rate as may be notified by the Central Government in this behalf.

B List Contributories

- (a) **Persons:** Shareholders who had transferred Partly Paid Shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories.
- (b) **Liability:** Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only.
- (c) **Conditions:** Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.

IV. Maintenance of Statutory Liquidity Ratio (SLR)**Section 24 and Section 56 of the Banking Regulation Act, 1949 – Maintenance of SLR and holdings of SLR in HTM category**

It has been decided to reduce the SLR requirement of banks from 20.0 per cent of their Net Demand and Time Liabilities (NDTL) to 19.5 per cent from the fortnight commencing October 14, 2017 as announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017. The related notification is DBR.No.Ret.BC.91/12.02.001/2017-18 dated October 4, 2017.

Currently, the banks are permitted to exceed the limit of 25 per cent of the total investments under HTM category, provided the excess comprises of SLR securities and total SLR securities held under HTM category are not more than 20.5 per cent of NDTL. In order to align this ceiling on the SLR holdings under HTM category with the mandatory SLR, it has been decided to reduce the ceiling from 20.5 per cent to 19.5 per cent in a phased manner, i.e. 20 per cent by December 31, 2017 and 19.5 per cent by March 31, 2018.

As per extant instructions, banks may shift investments to/from HTM with the approval of the Board of Directors once a year, and such shifting will normally be allowed at the beginning of the accounting year. In order to enable banks to shift their excess SLR securities from the HTM category to AFS/HFT to comply with instructions as indicated in paragraph 3 above, it has been decided to allow such shifting of the excess securities and direct sale from HTM category. This would be in addition to the shifting permitted at the beginning of the accounting year, i.e., in the month of April. Such transfer to AFS/HFT category as well as sale of securities from HTM category, to the extent required to reduce the SLR securities in HTM category in accordance with the regulatory instructions, would be excluded from the 5 per cent cap prescribed for value of sales and transfers of securities to/from HTM category under paragraph 2.3 (ii) of the Master Circular on Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks.

V. Maintenance of Cash Reserve Ratio (CRR)

Reserve Bank of India has decided to reduce the Cash Reserve Ratio (CRR) of Scheduled Commercial Banks by 25 basis points from 4.25 per cent to *4.00 per cent of their Net Demand and Time Liabilities (NDTL)* with effect from the fortnight beginning February 09, 2013 vide circular DBOD.No.Ret.BC.76/ 12.01.001 /2012-13 dated January 29, 2013. The Local Area Banks shall also maintain CRR at 3.00 per cent of its net demand and time liabilities up to February 08, 2013 and 4.00 per cent of its net demand and time liabilities from the fortnight beginning from February 09, 2013.

VI. Relevant Provisions of the Insurance Act [updated as per the Insurance (Amendment) Act, 2015]

The provisions of sections 10 and 11 have been modified vide the Insurance Laws (Amendment) Act, 2015. These amendments have necessitated changes to the IRDA (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations 2002. The significant provisions are as follows:

- (1) Forms for final accounts [Section 11(1)]: Every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, should, at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified.
- (2) Audit [Section 12]: The balance sheet, profit and loss account, revenue account and profit and loss appropriation account of every insurer, in respect of all insurance business transacted by him, should, unless they are subject to audit under the Companies Act, 2013, be audited annually by an auditor, and the auditor should in the audit of all such accounts have the powers of, exercise the functions vested in, and discharge the duties and be subject to the liabilities and penalties imposed on, auditors of companies by Section 147 of the Companies Act, 2013.
- (3) Register of policies [Section 14(1)]: Every insurer, in respect of all business transacted by him, should maintain— (a) a record of policies, in which should be entered, in respect of every policy issued by the insurer, the name and address of the policyholder, the date when the policy was effected and a record of any transfer, assignment or nomination of which the insurer has notice; (b) a record of claims, every claim made together with the date of the claim, the name and address of the claimant and the date on which the claim was discharged, or, in the case of a claim which is rejected, the date of rejection and the grounds thereof; and (c) a record of policies and claims in accordance with clauses (a) and (b) may be maintained in any such form, including electronic mode, as may be specified by the regulations made under this Act.

- (4) Approved investments (Section 27B(1)): A company carrying on general insurance business must invest its funds only in approved securities listed in this section.
- (5) Payment of commission to authorized agents (Section 40(1)): As per the Insurance (Amendment) Act 2015, no person should, pay or contract to pay any remuneration or reward, whether by way of commission or otherwise for soliciting or procuring insurance business in India to any person except an insurance agent or an intermediary or insurance intermediary in such manner as may be specified by the regulations.
- (6) Limit on expenditure (Sections 40B and 40C): As per the Insurance (Amendment) Act 2015 No insurer should, in respect of insurance business transacted by him in India, spend as expenses of management in any financial year any amount exceeding the amount as may be specified by the regulations made under this Act and every insurer transacting insurance business in India should furnish to the Authority, the details of expenses of management in such manner and form as may be specified by the regulations made under this Act."
- (7) Sufficiency of assets [Section 64VA(1)]: Every insurer and re-insurer should at all times maintain an excess of value of assets over the amount of liabilities of, not less than fifty per cent. of the amount of minimum capital as stated under section 6 and arrived at in the manner specified by the regulations.
- (8) Segregation of Policyholders' and Shareholders' Funds by the insurers carrying on General Insurance, Health Insurance and Reinsurance business: Section 11 (2) of the Insurance Laws (Amendment) Act, 2015 mandates that every insurer shall keep separate funds of shareholders and policyholders.
- (9) Unearned Premium Reserve (UPR): A Reserve for Unearned Premium shall be created as the amount representing that part of the premium written which is attributable to, and is to be allocated to the succeeding accounting periods. Such Reserves shall be computed as under:
 - a) Marine Hull: 100 percent of Net Written Premium during the preceding twelve months;
 - b) Other Segments: Insurers have an option to create UPR either at 50 percent of Net Written Premium of preceding twelve months or on the basis of 1/365th method on the unexpired period of the respective policies.

The insurers can follow either percentage or 1/365th method for computation of UPR of the other segments. However, Insurers shall follow the method of provisioning of UPR in a consistent manner. Any change in the method of provisioning can be done only with the prior written approval of the Authority.
10. Recoupment of the Deficit: Every Insurer shall ensure that the policyholders' fund are fully supported by the policyholders' investments shown in Schedule-SA. Therefore, any deficit/shortfall in policyholders' investments arising out of the loss in

the Revenue Account or otherwise shall be recouped by transfer of securities from the shareholders' investments to the policyholders' investments on a half yearly basis. The valuation of such securities shall be in accordance with the valuation norms as specified in the IRDA (Preparation of Financial Statements and Auditors' Report) Regulations, 2002.

11. Investment made out of the policyholders' funds: Investment made out of the policyholders' funds shall be shown in a separate schedule i.e., 8 A. The format of the same is given as below:

Annexure

SCHEDULE- 8A

INVESTMENTS-POLICYHOLDERS

Particulars	Current Year	Previous Year
	('000)	('000)
LONG TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares - i) Equity; ii) Preference		
(b) Mutual Funds		
(c) Debentures/ Bonds		
(d) Investment Property-Real Estate		
(e) Other Securities (to be specified)		
4. Investments in Infrastructure and Housing		
Sub-Total		
SHORT TERM INVESTMENTS		
1. Government securities and Government guaranteed bonds including Treasury Bills		
2. Other Approved Securities		
3. Other Investments		
(a) Shares- i) Equity ii) Preference		
(b) Mutual Funds		
(c) Debentures/ Bonds		
(d) Other Securities (to be specified)		

4. Investments in Infrastructure and Housing		
Sub-Total		
Total		

B. Not applicable for May, 2018 examination**Non-Applicability of Ind AS for May, 2018 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2018 Examination.

PART – II : QUESTIONS AND ANSWERS**QUESTIONS****Amalgamation of Partnership firms**

1. Firm B & Co. consists of partners Murli and Honey sharing Profits and Losses in the ratio of 3 : 2. The firm C & Co. consists of partners Honey and Prince sharing Profits and Losses in the ratio of 5 : 3. On 31st March, 2017 it was decided to amalgamate both the firms and form a new firm BC & Co., wherein Murli, Honey and Prince would be partners sharing Profits and Losses in the ratio of 4:5:1.

Balance Sheet as at 31.3.2017

<i>Liabilities</i>	<i>B & Co.</i>	<i>C & Co.</i>	<i>Assets</i>	<i>B & Co.</i>	<i>C & Co.</i>
	₹	₹		₹	₹
Capital:			Cash in hand/bank	80,000	60,000
Murli	3,00,000	---	Debtors	1,20,000	1,60,000
Honey	2,00,000	1,50,000	Stock	1,00,000	40,000
Prince	---	1,00,000	Vehicles	---	1,80,000
Reserves	1,00,000	80,000	Machinery	2,40,000	---
Creditors	<u>2,40,000</u>	<u>1,10,000</u>	Building	<u>3,00,000</u>	<u>---</u>
	<u>8,40,000</u>	<u>4,40,000</u>		<u>8,40,000</u>	<u>4,40,000</u>

The following were the terms of amalgamation:

- (i) Goodwill of B & Co., was valued at ₹ 1,50,000. Goodwill of C & Co. was valued at ₹ 80,000. Goodwill account not to be opened in the books of the new firm but adjusted through the Capital accounts of the partners.
- (ii) Building, Machinery and Vehicles are to be taken over at ₹ 4,00,000, ₹ 2,00,000 and ₹ 1,48,000 respectively.

- (iii) Provision for doubtful debts ₹ 10,000 in respect of B & Co. and ₹ 8,000 in respect of C & Co. are to be provided.

You are required to:

- Show, how the value of Goodwill is to be adjusted amongst the partners.
- Prepare the Balance Sheet of BC & Co. as at 31.3.2017 by keeping partners' capital in their profit sharing ratio by taking capital of 'Honey' as the basis. The excess or deficiency to be kept in the respective Partners' Current accounts.

Dissolution of partnership firm

2. A partnership firm was dissolved on 30th June, 2016. Its Balance Sheet on the date of dissolution was as follows:

Liabilities	₹	₹	Assets	₹
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	<u>36,000</u>	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		<u>30,000</u>		
		<u>2,00,000</u>		<u>2,00,000</u>

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid ₹ 29,000 in full settlement of their account. Expenses of realization were estimated to be ₹ 5,400 but actual amount spent was ₹ 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	₹
On 5 th July, 2016	25,200
On 30 th August, 2016	60,000
On 15 th September, 2016	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

Sale of Partnership firm to a Company

3. M, N and O were Partners sharing Profits and Losses in the ratio of 5:3:2 respectively. The Trial Balance of the Firm as on 31st March, 2017 was the following:

Particulars	₹	₹
Machinery at Cost	2,00,000	
Inventory	1,37,400	

Trade receivables	1,24,000	
Trade payables		1,69,400
Capital A/cs:		
M		1,36,000
N		90,000
O		46,000
Drawing A/cs:		
M	50,000	
N	46,000	
O	34,000	
Depreciation on Machinery		80,000
Profit for the year ended 31 st March		2,48,600
Cash at Bank	<u>1,78,600</u>	<u>7,70,000</u>
	7,70,000	7,70,000

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 company named MNO Private Limited Company with an Authorized Share Capital of 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of Partnership firm.

You are required as under:

1. Machinery is to be transferred at ₹ 1,40,000.
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 ₹ 1,00,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except Machinery and Bank, are to be transferred at their book value as on the above date.

The information is provided as under:

- (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.

Conversion of Partnership Firm into Company

4. (a) Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000
Baal	80,000	Buildings	1,10,000
Chand	10,000	Machinery	50,000
General Reserve	18,000	Motor Car	28,000
Investment Fluctuation Fund	4,000	Furniture	12,000
Chand's Loan	33,000	Investments	18,000
Mrs. Aman's loan	15,000	Loose tools	7,000
Creditors	96,000	Stock	18,000
Bills Payable	14,000	Bills receivable	20,000
Bank overdraft	60,000	Debtors: 40,000	
		Less: Provision <u>2,000</u>	38,000
		Cash	1,000
		Chand's current A/c	56,000
		Profit and Loss A/c	<u>12,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹ 10,00,000 divided into ₹ 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

- Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.
- Liabilities for bills payable and bank overdraft are to be taken over by the company.
- The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance in company's fully paid shares of ₹ 100 each.
- The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500.

- (v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to prepare the necessary ledger accounts in the books of the partnership firm.

- (b) Explain the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.

ESOPs

5. PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1-4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 18 on the grant date and the exercise price is ₹ 55 per share. The other information is given as under:
- (i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.
 - (ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

You are required to compute ESOP cost to be amortized by PQ Ltd. in the years 2015-2016 and 2016-2017.

Buy Back of Securities

6. Following is the summarized Balance Sheet of Complicated Ltd. as on 31st March, 2016 :

Liabilities	Amount (₹)
Equity shares of ₹ 10 each, fully paid up	12,50,000
Bonus shares of ₹ 10 each, fully paid up	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	2,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	<u>2,00,000</u>
	<u>86,50,000</u>

Fixed Assets	46,50,000
Current Assets	<u>40,00,000</u>
	<u>86,50,000</u>

The Company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The buy back of shares by the Company is also within the provisions of the Companies Act, 2013. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

You are required to give the necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

Redemption of Debentures

7. On 1st January, 2006 Raman Ltd. (company is not governed by section 133 of Companies Act, 2013) allotted 20,000 9% Debentures of ₹100 each at par, the total amount having been received along with applications.
- (i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.
 - (ii) On 1st January, 2011 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.
 - (iii) On 1st January, 2012 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.
 - (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016 when Securities Premium Account in the company's ledger showed a balance of ₹60,000.

You are required to pass journal entries for the above-mentioned transactions ignoring debenture redemption reserve, debenture interest and interest on own' debentures.

Underwriting of Shares and Debentures

8. Paper Limited comes out with a public issue of share capital on 01-01-2017 of 30,00,000 equity shares of ₹ 10 each at a premium of 5%. ₹ 2.50 is payable on application (on or before 31-01-2017) and ₹ 3 on allotment (31-3-2017) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.

6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2017 and were re-allotted for payment in cash of ₹ 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form assuming that benefit of firm underwriting is given to individual underwriter and to pass necessary journal entries to record the above events and transactions (including cash).

Amalgamation of Companies

9. P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
<u>Equity & liabilities:</u>			<u>Assets:</u>		
<u>Shareholders Fund</u>			<u>Non-current Assets:</u>		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	<u>Current Assets</u>		
<u>Current Liabilities</u>			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	<u>2,40,000</u>	<u>5,40,000</u>	c. Cash at Bank	<u>3,00,000</u>	<u>-</u>
	<u>18,60,000</u>	<u>25,20,000</u>		<u>18,60,000</u>	<u>25,20,000</u>

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

- (i) Calculate the number of shares issued to P Ltd. and Q Ltd; and
- (ii) Give required journal entries in the books of PQ Ltd.; and
- (iii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

Internal Reconstruction of a Company

10. M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital		Land & Building	42,70,000
50,000 shares of ₹ 50		Machinery	8,50,000
each fully paid up	25,00,000	Computers	5,20,000
1,00,000 shares of ₹ 50		Inventories	3,20,000
each ₹ 40 paid up	40,00,000	Trade receivables	10,90,000
Capital Reserve	5,00,000	Cash at Bank	2,68,000
8% Debentures of ₹ 100 each	4,00,000	Profit & Loss Account	29,82,000
12% Debentures of ₹ 100 each	6,00,000		
Trade creditors	12,40,000		
Outstanding Expenses	<u>10,60,000</u>		
	<u>1,03,00,000</u>		<u>1,03,00,000</u>

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of ₹ 40 each for ₹ 12,50,000.
- (3) Trade creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. A agrees to cancel debentures amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. B agrees to cancel debentures amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Inventories at ₹ 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

Liquidation of a Company

11. The position of Careless Ltd. on its liquidation is as under:

5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to Prepare Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.

Financial Statements of Insurance Companies

12. From the following information given by Long Live Insurance Co. Ltd., you are required to pass necessary Journal Entries (with narration and required working notes) relating to Unexpired Risk Reserve.

- (i) On 31.03.16, it had reserve for unexpired risks amounting to ₹ 80 crores. Its composition was as under:
 - (a) ₹ 30 crores in respect of Marine insurance business
 - (b) ₹ 40 crores in respect of Fire insurance business and
 - (c) ₹ 10 crores in respect of Miscellaneous insurance business
- (ii) Long Live 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 income policies.
- (iii) During 2016-17, the following business was conducted:

	₹ In crore		
	Marine	Fire	Miscellaneous
Premium Collected from:			
(a) Insured in respect of Policies issued	36	86	24
(b) Other Insurance Companies in respect of risks undertaken	14	10	8
Premium paid/payable to other insurance Companies on Business ceded.	20	10	15

Financial Statements of Banking Companies

13. The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000

Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- (i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- (ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31.3.2016 was ₹ 19,000 and on 31.3.2017 was ₹ 25,000.
- (iv) Preliminary expenses are to be fully written off during the year.
- (v) Provide ₹ 9,00,000 for Income-tax.
- (vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

Departmental Accounts

14. Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	Debit (₹)	Credit (₹)
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	

	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	
	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		<u>1,75,000</u>	<u>1,75,000</u>

You are required to prepare Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments:

- Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.
- Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.
- Each Department shall share all expenses in proportion to their sales.
- Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

Branch Accounting

- Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such

commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

From the under mentioned figures, calculate the commission due to manager for the year ended 31st March, 2017.

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

Framework for Preparation and Presentation of Financial Statements

16. (a) Write short note on main elements of Financial Statements.

Accounting standards

AS 16 Borrowing costs

- (b) In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to ₹ 25 lakhs. Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

17. (a) With reference to AS 4 "Contingencies and events occurring after the balance sheet date", state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date in case of a company which follows April to March as its financial year.
- A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.
 - A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

AS 5 Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

- (b) Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. Moreover, there

was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹2 lakhs was disclosed as net profit from sale of assets. Do you agree with the treatment and disclosure? If not, state your views.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Power Track Ltd. purchased a plant for US\$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to recognize the profit or loss on forward contract in the books of the company for the year ended 31st March, 2017.

AS 12 Government Grants

- (b) D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	<u>12,00,000</u>
	8,00,000
Less: Grant received	<u>(16,00,000)</u>
Balance	<u>(8,00,000)</u>

You are required to state how should the company deal with this asset in its accounts for 2015-16?

AS 19 Leases

19. (a) WIN Ltd. has entered into a three year lease arrangement with Tanya sports club in respect of Fitness Equipment's costing ₹ 16,99,999.50. The annual lease payments to be made at the end of each year are structured in such a way that the sum of the Present Values of the lease payments and that of the residual value together equal the cost of the equipments leased out. The unguaranteed residual value of the equipment at the expiry of the lease is estimated to be ₹ 1,33,500. The assets would revert to the lessor at the end of the lease. Given that the implicit rate of interest is 10%. You are required to compute the amount of the annual lease payment and the unearned finance income. Discounting Factor at 10% for years 1, 2 and 3 are 0.909, 0.826 and 0.751 respectively.

AS 20 Earnings Per Share

- (b) Mohur Ltd. has equity capital of ₹ 40,00,000 consisting of fully paid equity shares of ₹ 10 each. The net profit for the year 2016-2017 was ₹ 60,00,000. It has also issued 36,000, 10% convertible debentures of ₹ 50 each. Each debenture is convertible into five equity shares. The tax rate applicable is 30%. You are required to compute the amount of diluted earnings for the year 2016-2017.

AS 26 Intangible Assets

20. (a) K Ltd. launched a project for producing product X in October, 2016. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2017. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

- (b) The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier. Comment in line with the provisions of AS 29.

ANSWERS**1. (i) Adjustment for raising and writing off of goodwill**

	Raised in old profit sharing ratio		Total	Written off in new ratio	Difference
	B & Co.	C & Co.			
	3:2	5:3		4:5:1	
	₹	₹	₹	₹	₹
Murli	90,000	---	90,000 Cr.	92,000 Dr.	2,000 Dr.
Honey	60,000	50,000	1,10,000 Cr.	1,15,000 Dr.	5,000 Dr.
Prince	---	<u>30,000</u>	<u>30,000 Cr.</u>	<u>23,000 Dr.</u>	<u>7,000 Cr.</u>
	<u>1,50,000</u>	<u>80,000</u>	<u>2,30,000</u>	<u>2,30,000</u>	<u>Nil</u>

(ii) Balance Sheet of BC & Co. (New firm) as on 31.3.2017

Liabilities	₹	Assets	₹
Capital Accounts:		Vehicle	1,48,000
Murli	3,44,000	Machinery	2,00,000

Honey	4,30,000	Building	4,00,000
Prince	86,000	Stock	1,40,000
Current Accounts:		Debtors	2,62,000
Murli	44,000	Cash & Bank	1,40,000
Prince	36,000		
Creditors	<u>3,50,000</u>		
	<u>12,90,000</u>		<u>12,90,000</u>

Working Notes:**1. Balance of Capital Accounts at the time of amalgamation of firms**

	<i>Murli's Capital</i> ₹	<i>Honey's Capital</i> ₹
B & Co.'s Profit and loss sharing ratio 3:2		
Balance as per the Balance Sheet	3,00,000	2,00,000
Add: Reserves	60,000	40,000
Revaluation profit (Building)	60,000	40,000
Less: Revaluation loss (Machinery)	(24,000)	(16,000)
Provision for doubtful debts	<u>(6,000)</u>	<u>(4,000)</u>
	<u>3,90,000</u>	<u>2,60,000</u>
	<i>Honey's Capital</i>	<i>Prince's Capital</i>
C & Co.'s Profit and loss sharing ratio 5:3	₹	₹
Balance as per the Balance sheet	1,50,000	1,00,000
Add: Reserves	50,000	30,000
Less: Revaluation loss (vehicle)	(20,000)	(12,000)
Provision for doubtful debts	<u>(5,000)</u>	<u>(3,000)</u>
	<u>1,75,000</u>	<u>1,15,000</u>

2. Balance of Capital Accounts in the balance sheet of the new firm as on 31.3.2017

	<i>Murli</i> ₹	<i>Honey</i> ₹	<i>Prince</i> ₹
Balance b/d: B & Co.	3,90,000	2,60,000	--
C & Co.	<u>--</u>	<u>1,75,000</u>	<u>1,15,000</u>
	3,90,000	4,35,000	1,15,000
Adjustment for goodwill	<u>(2,000)</u>	<u>(5,000)</u>	<u>7,000</u>
	3,88,000	4,30,000	1,22,000

Total capital ₹8,60,000 (Taking Honey's capital* as base i.e. ₹4,30,000 x 10/5) to be contributed in 4:5:1 ratio.	<u>3,44,000</u>	<u>4,30,000</u>	<u>86,000</u>
Transfer to Current Account	<u>44,000</u>	<u>---</u>	<u>36,000</u>

2. Statement showing distribution of cash amongst the partners

	Creditors	B's Loan	A	B	C
2016	₹	₹	₹	₹	₹
June 30					
Balance b/d	30,000	10,000	76,000	48,000	36,000
Cash balance less Provision for expenses (₹ 10,800 – ₹ 5,400)	5,400	-	-	-	-
Balances unpaid	24,600	10,000	76,000	48,000	36,000
July 5					
1 st Instalment of ₹ 25,200	23,600	1,600	-	-	-
Discount received on full settlement	1,000	8,400	76,000	48,000	36,000
Less: Transferred to Realization A/c	1,000				
	Nil				
August 30					
2 nd instalment of ₹ 60,000 (W.N. 2)		8,400	32,640	4,640	14,320
Balance unpaid		Nil	43,360	43,360	21,680
September 15					
Amount realised ₹ 80,000					
Add: Balance out of the Provision for Expenses A/c <u>1,400</u>					
<u>81,400</u>			32,560	32,560	16,280
Amount unpaid being loss on Realization in the ratio of 2 : 2 : 1			10,800	10,800	5,400

* Honey's Capital ₹ 4,30,000 being one-half of the total capital of the firm.

Working Notes:**1. Highest relative capital basis**

		A	B	C
		₹	₹	₹
1.	Present Capitals	76,000	48,000	36,000
2.	Profit-sharing ratio	<u>2</u>	<u>2</u>	<u>1</u>
3.	Capital per unit of Profit share (1 ÷ 2)	<u>38,000</u>	<u>24,000</u>	<u>36,000</u>
4.	Proportionate capitals taking B, whose capital is the least, as the basis	48,000	48,000	24,000
5.	Excess capital (1-4)	28,000	Nil	12,000
6.	Profit-sharing ratio	<u>2</u>	<u>-</u>	<u>1</u>
7.	Excess capital per unit of Profit share (5 ÷ 6)	14,000		12,000
8.	Proportionate capitals as between A and C taking C capital as the basis	24,000	-	12,000
9.	Excess of A's Capital over C's Excess capital (5-8)	4,000	-	-
10.	Balance of Excess capital (5-9)	24,000		12,000
11.	Distribution sequence:			
	First ₹ 4,000 (2 : 0 : 0)	4,000	-	-
	Next ₹ 36,000 (2 : 0 : 1)	24,000	-	12,000
	Over ₹ 40,000 (2 : 2 : 1)			

2. Distribution of Second instalment

	Creditors	A	B	C
First ₹ 8,400	8,400	-	-	-
Next ₹ 4,000 (2 : 0 : 0)		4,000	-	-
Next ₹ 36,000 (2 : 0 : 1)		24,000	-	12,000
Balance ₹ 11,600 (2 : 2 : 1)		4,640	4,640	2,320
60,000	8,400	32,640	4,640	14,320

3. (a) Number of Shares to be issued to Partners

	₹
Assets: Machinery ₹ 1,40,000 + Inventory ₹ 1,37,400 + Trade Receivable ₹ 1,24,000 + Bank ₹ 1,00,000	5,01,400

Less: Liabilities taken over				(1,69,400)
Net Assets taken over (Purchase Consideration)				3,32,000
Classes of Shares to be issued:	M	N	O	Total
10% Preference Shares of ₹ 10 each (to retain rights as to Interest on Capital)	1,36,000	90,000	46,000	2,72,000
Balance in Equity Shares of ₹ 10 each	30,000	18,000	12,000	60,000
(3,32,000 - 2,72,000) (issued in profit sharing ratio)				
	<u>1,66,000</u>	<u>1,08,000</u>	<u>58,000</u>	<u>3,32,000</u>

(b) **Partners' Capital Accounts**

Particulars	M	N	O	Particulars	M	N	O
To Drawings	50,000	46,000	34,000	By balance b/d	1,36,000	90,000	46,000
To 10% Preference share capital	1,36,000	90,000	46,000	By Interest on Capital	13,600	9,000	4,600
To Equity Shares	30,000	18,000	12,000	By profit for the year 5:3:2 (W.N. 1)	1,10,700	66,420	44,280
To Bank – Additional drawings (W.N. 2)	54,300	17,420	6,880	By Machinery* A/c	10,000	6,000	4,000
Total	2,70,300	1,71,420	98,880		2,70,300	1,71,420	98,880

* Gain on Transfer of Machinery = ₹ 1,40,000 – (₹ 2,00,000 – ₹ 80,000) = ₹ 20,000 in 5:3:2 ratio.

(c) **Balance sheet of MNO Ltd. as on 31st March, 2017 (after Takeover of Firm)**

		Note No.	₹
I	Equity and Liabilities:		
	(1) Shareholders Funds		
	Share Capital	1	3,32,000
	(2) Current Liabilities		
	Trade Payables		<u>1,69,400</u>
	Total		<u>5,01,400</u>

II	Assets		
	(1) Non-Current Assets		
	Fixed Assets		
	Tangible Assets- Machinery		1,40,000
	(2) Current Assets:		
	(a) Inventories		1,37,400
	(b) Trade Receivables		1,24,000
	(c) Cash and Cash Equivalents		<u>1,00,000</u>
	Total		<u>5,01,400</u>

Notes to Accounts

Particulars	₹
Share capital	
Authorized share capital	20,00,000
Issued, Subscribed & paid up	
6,000 Equity Shares of ₹ 10 each	60,000
27,200 10% Preference Shares capital of ₹ 10 each	<u>2,72,000</u>
(All above shares were issued for consideration other than cash, in takeover of partnership firm)	3,32,000

Working Note:**1. Profit & Loss Appropriation Account for the year ended 31st March, 2017**

Particulars	₹	₹	Particulars	₹
To Interest on Capital:			By Net Profit (given)	2,48,600
M [₹ 1,36,000 x 10%]	13,600			
N [₹ 90,000 x 10%]	9,000			
O [₹ 46,000 x 10%]	<u>4,600</u>	27,200		
To Profits transferred to Capital in profit sharing ratio 5:3:2				
M	1,10,700			
N	66,420			
O	<u>44,280</u>	<u>2,21,400</u>		
Total		2,48,600		<u>2,48,600</u>

2. Statement showing Additional Drawings in Cash

(a) Funds available for Drawings

	Total Drawing of Partners (given)	1,30,000
Add:	Further Funds available for Drawings (1,78,600-1,00,000)	<u>78,600</u>
		2,08,600
Less:	Interest on Capital	<u>(27,200)</u>
	Amount available for Additional Drawings	1,81,400

(b) Ascertainment of Additional Drawings

Particulars	M	N	O
As per above statement ₹ 1,81,400 (in profit sharing ratio)	90,700	54,420	36,280
Add: Interest	<u>13,600</u>	<u>9,000</u>	<u>4,600</u>
	1,04,300	63,420	40,880
Less: Already drawn	<u>(50,000)</u>	<u>(46,000)</u>	<u>(34,000)</u>
Additional Drawings	<u>54,300</u>	<u>17,420</u>	<u>6,880</u>

4. (a) Necessary Ledger Accounts in the books of Partnership Firm

Realization Account

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investments taken over)		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	<u>1,000</u>	49,000
To Cash A/c:					

Creditors	94,000				
Realisation expenses	<u>500</u>	94,500			
To Profit on Realisation t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	<u>333</u>	<u>2,000</u>			
		4,44,500			<u>4,44,500</u>

ABC Ltd. Account

Particulars	₹	Particulars	₹
To Realisation A/c	1,95,500	By Cash A/c	75,500
	<u> </u>	By Shares in ABC Ltd.	<u>1,20,000</u>
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	Aman ₹	Baal ₹	Chand ₹	Particulars	Aman ₹	Baal ₹	Chand ₹
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000
To Realisation A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
To Chand's Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund*	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realisation A/c (Mrs. Aman's loan A/c)	15,000	-	-
				By Cash A/c	<u>-</u>		<u>31,000</u>
	<u>97,000</u>	<u>88,000</u>	<u>78,000</u>		<u>97,000</u>	<u>88,000</u>	<u>78,000</u>

*Alternatively, Investment Fluctuation Fund Account may be transferred to Realization Account.

Chand's Current Account

Particulars	₹	Particulars	₹
To Balance b/d	<u>56,000</u>	By Chand's Capital A/c-transfer	<u>56,000</u>
	<u>56,000</u>		<u>56,000</u>

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realisation A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realisation A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		-
	<u>1,56,500</u>		<u>1,56,500</u>

(b) Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP;

- ◆ The Liabilities of an LLP shall be met out of the properties of the LLP;
- ◆ Under section 28 (1) a partner is not personally liable, directly or indirectly, for an obligation referred to in Section 27 (3) above, solely by reason of being a partner in the LLP;
- ◆ Section 27 (1) states that an LLP is not bound by anything done by a partner in dealing with a person, if:
 - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
 - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- ◆ Under section 30 (1) the liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

5.

Calculation of ESOP cost to be amortized

	2015-2016	2016-2017
Fair value of options per share	₹ 18	₹ 18

No. of options expected to vest under the scheme	93,000 (930 x 100)	88,000 (880 x 100)
Fair value of options	16,74,000	₹ 15,84,000
Value of options recognized as expenses	(₹ 16,74,000 / 2) 8,37,000	(₹ 15,84,000 – ₹ 8,37,000) 7,47,000

6. As per the information given in the question, buy-back of 25,000 shares @ ₹ 20, as desired by the company, is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares

		Debit (₹)	Credit (₹)
(a)	Equity shares buy-back account Dr. To Bank account (Being buy back of 25,000 equity shares of ₹ 10 each @ ₹ 20 per share)	5,00,000	5,00,000
(b)	Equity share capital account Dr. Securities premium account Dr. To Equity shares buy-back account (Being cancellation of shares bought back)	2,50,000 2,50,000	5,00,000
(c)	Revenue reserve account Dr. To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	2,50,000	2,50,000

**Balance Sheet of Complicated Ltd.
as on 1st April, 2016**

Particulars	Note No	Amount ₹
EQUITY AND LIABILITIES		
1 Shareholders' funds		
(a) Share capital	1	11,00,000
(b) Reserves and Surplus	2	22,25,000
2 Non-current liabilities		
(a) Long-term borrowings	3	28,75,000

3	Current liabilities		
	(a) Other current liabilities	4	<u>19,50,000</u>
	Total		<u>81,50,000</u>
	ASSETS		
1	Non-current assets		
	(a) Fixed assets		46,50,000
2	Current assets (40,00,000-5,00,000)		<u>35,00,000</u>
	Total		<u>81,50,000</u>

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	1,10,000 Equity shares of ₹10 each		11,00,000
2.	Reserves and Surplus		
	Profit and Loss A/c	1,25,000	
	Revenue reserves	15,00,000	
	Less: Transfer to CRR	<u>(2,50,000)</u>	12,50,000
	Securities premium	2,50,000	
	Less: Utilization for share buy-back	<u>(2,50,000)</u>	-
	Share Option Outstanding Account	4,00,000	
	Capital Reserve	2,00,000	
	Capital Redemption Reserve	<u>2,50,000</u>	<u>22,25,000</u>
3.	Long-term borrowings		
	Secured		
	12% Debentures	18,75,000	
	Unsecured loans	<u>10,00,000</u>	<u>28,75,000</u>
4.	Other Current Liabilities		
	Current maturities of long term borrowings	16,50,000	
	Unpaid dividend	1,00,000	
	Application money received for allotment due for refund	<u>2,00,000</u>	<u>19,50,000</u>

7. Journal Entries

		(₹) Dr.	(₹) Cr.
2006 Jan 1	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 20,000 debentures @ ₹ 100 per debenture received)	20,00,000	20,00,000
	9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of ₹100 each at par)	20,00,000	20,00,000
(i) 2008 Jan. 1	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each)	2,00,000 2,000	2,02,000
" "	Profit & Loss Account/Securities Premium Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account or Securities Premium Account)	2,000	2,000
(ii) 2011 Jan. 1	9% Debentures Account Dr. To Sundry Debentureholders (Being Amount payable to debentureholders on redemption debentures for ₹6,00,000 at par by draw of a lot)	6,00,000	6,00,000
" "	Sundry Debentureholders Dr. To Bank (Being Payment made to sundry debentureholders for redeeming debentures of ₹6,00,000 at par)	6,00,000	6,00,000
(iii) 2012 Jan. 1	Own Debentures Dr. To Bank (Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600)	3,95,600	3,95,600
2013 "	9% Debentures Dr. To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600)	4,00,000	3,95,600 4,400
" "	Profit on Cancellation of Own Debentures	4,400	

	Account	Dr.		4,400
	To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)			
(iv) 2016 Jan. 1	9% Debentures Account	Dr.	8,00,000	
	Premium on Redemption of Debentures Account	Dr.	16,000	
	To Sundry Debentureholders (Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)			8,16,000
" "	Sundry Debentureholders	Dr.	8,16,000	
	To Bank Account (Being payment to sundry debentureholders)			8,16,000
" "	Securities Premium Account	Dr.	16,000	
	To Premium on Redemption of Debentures Account (Being utilisation of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)			16,000

8. Statement showing liability of underwriters

	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares]	1:1	15,00,000	15,00,000
B.	Less: Marked Applications {Net of firm underwriting}		<u>(15,00,000)</u>	<u>(10,20,000)</u>
C.	Balance [A-B]		-	4,80,000
D.	Less: Unmarked Applications	1:1	<u>(1,20,000)</u>	<u>(1,20,000)</u>
E.	Balance [C-D]		(1,20,000)	3,60,000
F.	Less: Firm Underwriting		<u>(60,000)</u>	<u>(60,000)</u>
G.	Balance		(1,80,000)	3,00,000
H.	Credit for White 's Oversubscription		<u>1,80,000</u>	<u>(1,80,000)</u>
I.	Net Liability		-	1,20,000
J.	Add: Firm Underwriting		<u>60,000</u>	<u>60,000</u>
K.	Total Liability [No. Shares]		60,000	1,80,000

Journal Entries

2017 Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000

March 31	(Being application money received @ ₹ 2.50 per share on 28,80,000 shares)	Dr.	72,00,000	72,00,000
	Equity Share Application A/c To Equity Share Capital A/c			
March 31	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)	Dr.	86,40,000	72,00,000
	Equity Share Allotment A/c (28,80,000 x ₹ 3)			
	To Equity Share Capital A/c (28,80,000 x ₹ 2.5)			
March 31	To Securities Premium A/c (28,80,000 x ₹ 0.5)	Dr.	6,60,000	14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			6,00,000
	Black (1,20,000 x ₹ 5.5)			
March 31	To Equity Share Capital A/c (1,20,000 x ₹ 5)	Dr.	92,82,000	60,000
	To Securities Premium A/c (1,20,000 x ₹ 0.5)			86,22,000
	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March 31	Bank A/c	Dr.	12,60,000	6,30,000
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x ₹ 3]			
	To Black (1,20,000 x ₹ 5.5)			
March 31	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)	Dr.	12,60,000	6,30,000
	Underwriting Commission A/c			
	To Black A/c			
March 31	To White A/c	Dr.	12,60,000	6,30,000
	(Being commission @ 4 % on issue price of ₹ 10.50 for ₹30 lakh shares payable to underwriters)			

March 31	Black A/c White A/c To Bank A/c (Being commission paid to underwriters)		6,30,000 6,30,000		12,60,000
June 30	Equity Share Capital A/c (6,000 x 5) Securities Premium A/c (6,000 x 0.5) To Share Allotment A/c (6,000 x 3) To Forfeited Shares A/c (6,000 x 2.5) (Being 6,000 shares forfeited vide Board's Resolution)	Dr. Dr.	30,000 3,000		18,000 15,000
June 30	Bank A/c (6,000 x ₹ 4) Forfeited Shares A/c To Equity Share Capital A/c (6,000 x ₹ 5) (Being the reissue of 6,000 shares @ ₹ 4 as ₹ 5 paid up at par)	Dr. Dr.	24,000 6,000		30,000
	Forfeited Shares A/c (15,000 – 6,000) To Capital Reserve A/c (Being the transfer of profit on reissue)	Dr.	9,000		9,000

9. (i) **Calculation of number of shares issued to P Ltd. and Q Ltd.:**

Amount of Share Capital as per balance sheet	₹
P Ltd.	6,00,000
Q Ltd.	<u>8,40,000</u>
	<u>14,40,000</u>

Share of P Ltd. = ₹ 14,40,000 x [21,60,000 / (21,60,000 + 14,40,000)]
= ₹ 8,64,000 or 86,400 shares

Securities premium = ₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000

Premium per share = ₹ 12,96,000 / ₹ 86,400 = ₹ 15

Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share

Share of Q Ltd. = ₹ 14,40,000 x [14,40,000 / (21,60,000 + 14,40,000)]
= ₹ 5,76,000 or 57,600 shares

Securities premium = ₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000

Premium per share = ₹ 8,64,000 / ₹ 57,600 = ₹ 15

Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share

(ii)

Journal Entries

In the books of PQ Ltd.

		Dr.	Cr.
Particulars		Amount (₹)	Amount (₹)
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000

To Securities premium (57,600 x ₹ 15) (Being the allotment of shares as per agreement for discharge of purchase consideration)		8,64,000
Bank A/c	18,00,000	
To Equity share capital account		7,20,000
To Securities premium (Equity share capital issued to raise working capital)		10,80,000

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	21,60,000
	b	Reserves and Surplus	2	32,40,000
2		Current liabilities		
	a	Trade payables (2,40,000 + 5,40,000)		<u>7,80,000</u>
		Total		<u>61,80,000</u>
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets (7,20,000 + 10,80,000)		18,00,000
		Intangible assets (goodwill)	4	5,40,000
2		Current assets		
	a	Inventories (3,60,000 + 6,60,000)		10,20,000
	b	Trade receivables (4,80,000 + 7,80,000)		12,60,000
	c	Cash and cash equivalents	3	15,60,000
		Total		<u>61,80,000</u>

Notes to accounts

	₹
1 Share Capital	
Issued, subscribed and paid up share capital 2,16,000 Equity shares of ₹10 each	21,60,000

(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)		
2	Reserves and Surplus	
	Securities premium	32,40,000
	(@₹15 for 2,16,000 shares)	
3	Cash and cash equivalents	
	Cash at Bank	15,60,000
4	Intangible Assets	
	Goodwill	5,40,000

Working Notes:1. **Calculation of goodwill of P Ltd.**

Particulars	Amount ₹	Weight	Weighted amount ₹
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	<u>6,30,000</u>	3	<u>18,90,000</u>
Total (a+b+c)	<u>14,55,000</u>	6	<u>32,40,000</u>
weighted Average = [Total weighted amount / Total of weight]			
[₹ 32,40,000/6]			
Goodwill			5,40,000

2. **Calculation of Net assets**

	P Ltd. ₹	Q Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	<u>2,40,000</u>	<u>5,40,000</u>
Net assets or Purchase consideration	<u>21,60,000</u>	<u>14,40,000</u>

3. **New authorized capital**

$$= ₹ 14,40,000 + ₹ 12,00,000 = ₹ 26,40,000$$

4. **Cash and Cash equivalents**

₹

P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X ₹ 25)	<u>18,00,000</u>
	21,00,000
Less: Bank Overdraft	<u>5,40,000</u>
	<u>15,60,000*</u>

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

10

Journal Entries

		₹	₹
Bank A/c Dr.	10,00,000		
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (₹ 50) A/c Dr.	75,00,000		
To Equity share capital (₹ 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of ₹ 50 each into ₹ 40 each as per reconstruction scheme)			
Bank A/c Dr.	12,50,000		
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at ₹ 40 each)			
Trade payables A/c Dr.	12,40,000		
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c Dr.	3,00,000		
12% Debentures A/c Dr.	4,00,000		
To A A/c			7,00,000
(Being cancellation of 8% and 12% debentures of A)			
A A/c Dr.	7,00,000		

To 15% Debentures A/c			5,00,000
To Capital Reduction A/c			2,00,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Bank A/c	Dr.	1,00,000	
To 15% Debentures A/c			1,00,000
(Being new debentures subscribed by A)			
8% Debentures A/c	Dr.	1,00,000	
12% Debentures A/c	Dr.	2,00,000	
To B A/c			3,00,000
(Being cancellation of 8% and 12% debentures of B)			
B A/c	Dr.	3,00,000	
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c			50,000
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
Land and Building	Dr.	9,14,000	
(51,84,000 – 42,70,000)			
Inventories	Dr.	30,000	
To Capital Reduction A/c			9,44,000
(Being value of assets appreciated)			
Outstanding expenses A/c	Dr.	10,60,000	
To Bank A/c			10,60,000
(Being outstanding expenses paid in cash)			
Capital Reduction A/c	Dr.	33,41,000	
To Machinery A/c			1,30,000
To Computers A/c			1,20,000
To Trade receivables A/c			1,09,000
To Profit and Loss A/c			29,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance and downfall in value of other assets)			

Capital Reserve A/c	Dr.	5,00,000	
To Capital Reduction A/c			5,00,000
(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet of Xylem Ltd. (as reduced) as on 31.3.2017

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	80,00,000
2 Non-current liabilities		
a Long-term borrowings	2	<u>8,50,000</u>
Total		<u>88,50,000</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	3	63,04,000
2 Current assets		
a Inventories		3,50,000
b Trade receivables		9,81,000
c Cash and cash equivalents		<u>12,15,000</u>
Total		<u>88,50,000</u>

Notes to accounts

		₹
1. Share Capital		
2,00,000 Equity shares of ₹ 40		80,00,000
2. Long-term borrowings		
Secured		
15% Debentures (assumed to be secured)		8,50,000
3. Tangible assets		
Land & Building	51,84,000	
Machinery	7,20,000	
Computers	<u>4,00,000</u>	63,04,000

Working Notes:1. **Cash at Bank Account**

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To 15% Debentures A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. **Capital Reduction Account**

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade payables A/c	1,47,000
To Trade receivables A/c	1,09,000	By A A/c	2,00,000
To Profit and Loss A/c	29,82,000	By B A/c	50,000
		By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	<u>5,00,000</u>
	<u>33,41,000</u>		<u>33,41,000</u>

11. **Liquidator's Final Statement of Account**

<i>Receipts</i>	<i>₹</i>	<i>Payments</i>	<i>₹</i>
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ ₹ 10 per share (W.N.)		Unsecured Creditors	99,000
	<u>4,00,400</u>	Preference Shareholders	<u>3,00,000</u>
			<u>4,00,400</u>

Working Notes:

<i>(i) Calculation of Shortage of funds</i>	<i>₹</i>
Total Amount Available	3,80,400
Less: liquidation Expenses	<u>(1,000)</u>
Balance	3,79,400
Less: Unsecured Creditors	<u>(99,000)</u>

Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	<u>19,600</u>

- (ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\begin{aligned} \text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} &= ₹ 19,600 \times \frac{100}{100 - 2} \\ &= \frac{₹ 19,600 \times 100}{98} = ₹ 20,000 \end{aligned}$$

- (iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000

- (iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share (20,000 / 20)

- (v) Commission on Call = ₹ 20,000 x 2/100 = ₹ 400

12.

In the books of Long Live Insurance Co. Ltd.

Journal Entries

Date	Particulars		(₹ in crores)	
			Dr.	Cr.
1.4.2016	Unexpired Risk Reserve (Fire) A/c	Dr.	40.00	
	Unexpired Risk Reserve (Marine) A/c	Dr.	30.00	
	Unexpired Risk Reserve (Miscellaneous) A/c	Dr.	10.00	
	To Fire Revenue Account			40.00
	To Marine Revenue Account			30.00
	To Miscellaneous Revenue Account			10.00
	(Being unexpired risk reserve brought forward from last year)			
31.3.2017	Marine Revenue A/c	Dr.	30	
	To Unexpired Risk Reserve (Marine) A/c			30
	(Being closing reserve for unexpired risk created at 100% of net premium income for marine)			
	Fire Revenue A/c	Dr.	43	

	To Unexpired Risk Reserve(Fire) A/c (Being closing reserve for unexpired risk created at 50% of net premium income for Fire)		43
	Miscellaneous Revenue A/c	Dr.	8.5
	To Unexpired Risk Reserve(Misc.) A/c (Being closing reserve for unexpired risk created at 50% net premium income for Misc.)		8.5

Working Note:**Calculation of Closing balance of Reserve for Unexpired Risks**

	Marine	Fire	Misc.
Premium Collected from:			
a. Insured in respect of policies issued	36.00	86.00	24.00
b. Other insurance companies in respect of risks undertaken	14.00	10.00	8.00
Total (a+b)	50.00	96.00	32.00
Less: Premium paid/payable to other insurance companies on business ceded	<u>20.00</u>	<u>10.00</u>	<u>15.00</u>
	<u>30.00</u>	<u>86.00</u>	<u>17.00</u>
% of creation of unexpired Risk Reserve	100%	50%	50%
Amount of Closing Unexpired Risk Reserve	30.00	43.00	8.50

13.

TOP Bank Limited**Profit and Loss Account for the year ended 31st March, 2017**

		Schedule	Year ended 31.03.2017
			(₹ in '000s)
I.	Income:		
	Interest earned	13	5923.18
	Other income	14	<u>728.00</u>
	Total		<u>6,651.18</u>
II.	Expenditure		
	Interest expended	15	3259.92
	Operating expenses	16	768.46

	Provisions and contingencies (960+210+900)	<u>2,070.00</u>
	Total	<u>6,098.38</u>
III.	Profits/Losses	
	Net profit for the year	552.80
	Profit brought forward	<u>nil</u>
		<u>552.80</u>
IV.	Appropriations	
	Transfer to statutory reserve (25%)	138.20
	Balance carried over to balance sheet	<u>414.60</u>
		<u>552.80</u>

		Year ended 31.3. 2017 (₹ in '000s)
	Schedule 13 – Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	<u>5923.18</u>
		<u>5923.18</u>
	Schedule 14 – Other Income	
I.	Commission, exchange and brokerage	304
II.	Profit on sale of investments	320
III.	Rent received	<u>104</u>
		<u>728</u>
	Schedule 15 – Interest Expended	
I.	Interests paid on deposits	<u>3259.92</u>
	Schedule 16 – Operating Expenses	
I.	Payment to and provisions for employees	320
II.	Rent and taxes	144
III.	Depreciation on bank's properties	48
IV.	Director's fee, allowances and expenses	48
V.	Auditors' fee	28
VI.	Law (statutory) charges	44
VII.	Postage and telegrams	96.46

VIII.	Preliminary expenses	<u>40</u>
		<u>768.46</u>

Working Note:

	(₹ in '000s)
Interest/discount	5,929.18
Add: Rebate on bills discounted on 31.3. 2016	19.00
Less: Rebate on bills discounted on 31.3. 2017	<u>(25.00)</u>
	<u>5,923.18</u>

14.

Trading and Profit and Loss Account
for the year ended on 31st March, 2017

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	<u>20,800</u>	<u>7,800</u>	<u>11,900</u>				
	<u>53,500</u>	<u>32,000</u>	<u>21,500</u>		<u>53,500</u>	<u>32,000</u>	<u>21,500</u>
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-
To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	<u>7,025</u>		<u>6,390</u>				
	<u>20,800</u>	<u>8,265</u>	<u>11,900</u>		<u>20,800</u>	<u>8,265</u>	<u>11,900</u>

Balance Sheet as at 31.03.2017

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital A/c	40,000	Furniture & Fixtures	4,600
Add: Net Profit (₹ 7,025 + ₹ 6,390)	<u>13,415</u>	Plant & Machinery	20,000
	53,415	Less: Depreciation	<u>2,000</u> 18,000
Less: Net loss in Dept B	<u>465</u>	Motor Vehicles	40,000
	52,950	Less: Depreciation	<u>4,000</u> 36,000
Less: Drawings	<u>1,500</u>	Sundry Debtors	12,200
	51,450	Cash in hand	850
Sundry Creditors	15,000	Closing Stock	7,000
Bank Overdraft	12,000		
Wages Outstanding	<u>200</u>		
	<u>78,650</u>		<u>78,650</u>

Note: Allocation of expenses has been done in proportion of sales, as required by the question.

15. Step 1: Calculation of Deficiency**Branch stock account (at invoice price)**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
		By Deficiency at sale price [Balancing figure]	<u>1,280</u>
	<u>4,85,888</u>		<u>4,85,888</u>

Step 2: Calculation of Net Profit before Commission**Branch account**

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912

To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	<u>40,240</u>		
	<u>6,06,080</u>		<u>6,06,080</u>

Step 3: Calculation of Commission still due to manager

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	Less: 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	<u>(240)</u>
C	Commission for the year [A-B]	3,784
D	Less: Paid on account	<u>(2,400)</u>
E	Balance due (C-D)	1,384

16. (a) Elements of Financial Statements

The framework classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

- (b) AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the

construction of the building upto the date of completion (January, 2017) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.

17. (a) According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard 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.
- (i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is **non-adjusting** in nature.
 - (ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.
- (b) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

18. (a) **Calculation of profit or loss to be recognized in the books of Power Track Limited**

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	\$ 50,000

Total loss on entering into forward contract = (\$ 50,000 × ₹ 2.75)	₹1,37,500
Contract period	6 months
Loss for the period 1 st November, 2016 to 31 st March, 2017 i.e. 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be $₹ 1,37,500 \times \frac{5}{6} =$	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

- (b) From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

19. (a) (i) **Computation of annual lease payment to the lessor**

	₹
Cost of equipment	16,99,999.50
Unguaranteed residual value	1,33,500.00
Present value of residual value after third year @ 10% (₹ 1,33,500 × 0.751)	1,00,258.50
Fair value to be recovered from lease payments (₹ 16,99,999.5 – ₹ 1,00,258.5)	15,99,741.00
Present value of annuity for three years is 2.486	
Annual lease payment = ₹ 15,99,741 / 2.486	6,43,500.00

(ii) **Computation of Unearned Finance Income**

	₹
Total lease payments (₹ 6,43,500 × 3)	19,30,500
Add: Unguaranteed residual value	<u>1,33,500</u>
Gross investment in the lease	20,64,000.00
Less: Present value of investment (lease payments and residual value) (₹ 1,00,258.5 + ₹ 15,99,741)	<u>(16,99,999.50)</u>
Unearned finance income	<u>3,64,000.50</u>

(b)

Interest on Debentures @ 10% for the year		$36,000 \times ₹ 50 \times \frac{10}{100}$
	=	₹ 1,80,000
Tax on interest @ 30%	=	₹ 54,000
Diluted Earnings (Adjusted net profit)	=	(₹ 60,00,000 + ₹ 1,80,000 - ₹ 54,000)
	=	₹ 61,26,000

20. (a) As per provisions of AS 26 “Intangible Assets”, expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2017.

- (b) As per provisions of AS 29 “Provisions, Contingent Liabilities and Contingent Assets”, where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.