

PAPER – 5: ADVANCED ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2019 EXAMINATION

A. Applicable for November, 2019 Examination

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

- (A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;
- (B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-
 - (I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;
 - (II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

II. Amendment in AS 11 “The Effects of Changes in Foreign Exchange Rates”

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the “ANNEXURE”, under the heading “ACCOUNTING STANDARDS” under “AS 11 on The Effects of Changes in Foreign Exchange Rates”, for the paragraph 32, the following paragraph shall be substituted, namely :-

“32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised at the time of a write-down”.

III. 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 November, 2019 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 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	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 as impairment of receivables (commonly known as provision for bad and doubtful debts) is governed by this Standard.	Footnote has been modified.

		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.		
	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 that time unless a statute requires otherwise. Such dividends are disclosed in the notes.	No liability for proposed dividends must be created now. Such proposed dividends are to be 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 recognize 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 Account') which is disclosed as a part of 'miscellaneous expenditure' or other	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 Reserve') which is presented as a	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be

		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.	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.	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 recognized 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	Now discounting of provision for decommissioning, restoration and similar liabilities should be done as per the pre-tax discount rate as mentioned therein.

			discount should 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.

IV. Redemption of Debentures

Unit 3 of Chapter 4 on Redemption of Debentures of Intermediate Paper 5 Advanced Accounting Study Material has been revised. The revised unit has been uploaded on the BoS Knowledge Portal of the Institute's website. It is advised to ignore the unit given in July, 2015 Edition (or prior Edition) of the Study Material and to refer the updated unit uploaded on the BoS Knowledge Portal of the Institute's website at the below mentioned link:

<https://resource.cdn.icai.org/54231bos43539cp4-u3.pdf>

V. 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]

- The company has resolved that the company be wound up by the Tribunal.
- 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
- 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 in 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].:

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

- (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.

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 realized 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 realize. 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 realized 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 realizable 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.

VI. Maintenance of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)Statutory Liquidity Ratio (SLR)

In exercise of the powers conferred by sub-section (2A) of Section 24 read with Section 51 and Section 56 of the Banking Regulation Act, 1949 (10 of 1949) and in supersession of the notifications [DBR.No.Ret.BC.14/12.02.001/2016-17 dated October 13, 2016](#) [BR.NDBR.No.Ret.BC.91/12.02.001/2017-18 dated October 04, 2017](#), the Reserve Bank hereby specifies that with effect from the dates given below, every Scheduled Commercial Bank (including RRBs), Local Area Bank, Small Finance Bank, Payments Bank, Primary (urban) co-operative bank and State and central co-operative banks shall continue to maintain in India assets (referred to as 'SLR assets') the value of which shall not, at the close of business on any day, be less than:

- (i) 19.25 per cent from January 5, 2019
- (ii) 19.00 per cent from April 13, 2019
- (iii) 18.75 per cent from July 6, 2019
- (iv) 18.50 per cent from October 12, 2019
- (v) 18.25 per cent from January 4, 2020
- (vi) 18.00 per cent from April 11, 2020

of their total net demand and time liabilities in India as on the last Friday of the second preceding fortnight, valued in accordance with the method of valuation specified by the Reserve Bank from time to time.

Cash Reserve Ratio (CRR)

The current Cash Reserve Ratio (CRR) is 4% 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 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 is 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		

NOTE: Chapters 2, 4, 5 and 6 of the Intermediate Paper 5 Advanced Accounting Study Material have been revised in line with the Companies (Accounting Standards) Amendment Rules, Banking and IRDA Regulations. These revised chapters have been uploaded on the BoS Knowledge Portal of the Institute's website. The students of Intermediate level (old course) who

have either July, 2015 Edition or prior Edition of the Study Material are required to ignore these chapters given in that material and are advised to read the updated chapters uploaded on the BoS Knowledge Portal of the Institute's website at the below mentioned link:

https://www.icaai.org/post.html?post_id=12433

B. Not applicable for November, 2019 examination

Non-Applicability of Ind AS for November, 2019 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 November, 2019 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Dissolution of partnership firm

1. P, Q, R and S are sharing profits and losses in the ratio 3 : 3 : 2 : 1. Frauds committed by R during the year were found out and it was decided to dissolve the partnership on 31st March, 2019 when their Balance Sheet was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	1,90,000
P	1,50,000	Stock	1,30,000
Q	1,50,000	Investments	50,000
R	-	Debtors	70,000
S	60,000	Cash	30,000
General reserve	40,000	R	40,000
Trade creditors	80,000		
Bills payable	30,000		
	<u>5,10,000</u>		<u>5,10,000</u>

Following information is given to you:

- A cheque for ₹ 7,000 received from debtor was not recorded in the books and was misappropriated by R.
- Investments costing ₹ 8,000 were sold by R at ₹ 11,000 and the funds transferred to his personal account. This sale was omitted from the firm's books.
- A creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the creditors were paid off at a discount of 5%.

(iv) The other assets realized as follows:

Building 110% of book value

Stock ₹ 1,20,000

Investments The rest of investments were sold at a profit of ₹ 7,000

Debtors The rest of the debtors were realized at a discount of 10%

(v) The bills payable were settled at a discount of ₹ 500.

(vi) The expenses of dissolution amounted to ₹ 8,000

(vii) It was found out that realization from R's private assets would only be ₹ 7,000.

Prepare Realisation Account, Cash Account and Partner's Capital Accounts. All workings should part of your answer.

Conversion of Partnership firms into a company

2. P, Q and R are partners sharing profits and losses in the ratio 3 : 2 : 1 after allowing interest on capital @ 9% p.a. Their Balance Sheet as at 31st March, 2019 are as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Plant & Machinery	1,08,000
P 50,000		Fixtures	20,000
Q 30,000		Stock	50,000
R <u>20,000</u>	1,00,000	Sundry Debtors	30,000
Reserve Fund	60,000		
Creditors	48,000		
	<u>2,08,000</u>		<u>2,08,000</u>

They applied for conversion of the firm into a Private Limited Company named PQR Pvt. Ltd. and the certificate was received on 01-04-2019. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capital as far as possible. For that purpose, they decided to insert a clause of issuance of Preference shares in Memorandum of Association in addition to issuance of Equity shares of ₹ 10 each.

On 01-04-2019, the value of goodwill is to be determined on the basis of 2 years' purchase of the average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31.03.2015	Profit	10,000

Year ended 31.03.2016	Loss	5,000
Year ended 31.03.2017	Profit	18,000
Year ended 31.03.2018	Profit	27,000
Year ended 31.03.2019	Profit	30,000

The loss for the year ended 31-03-2016 was on account of loss by strike to the extent of 10,000.

It was agreed that rest of the assets are valued on the basis of the Balance Sheet as at 31-03-2019 except Plant & Machinery which is valued at ₹ 1,02,000.

You are required to prepare (a) the Balance Sheet of the Company as at 01-04-2019, (b) Partners' Capital Accounts and (c) Statement showing the final settlement between the partners taking Q's capital as basis.

Sale of Partnership firm to Company

3. 'X' and 'Y' carrying on business in partnership sharing Profit and Losses equally, wished to dissolve the firm and sell the business to 'X' Limited Company on 31-3-2019, when the firm's position was as follows:

Liabilities	₹	Assets	₹
X's Capital	1,50,000	Land and Building	1,00,000
Y's Capital	1,00,000	Furniture	40,000
Creditors	60,000	Stock	1,00,000
		Debtors	66,000
		Cash	4,000
	<u>3,10,000</u>		<u>3,10,000</u>

The arrangement with X Limited Company was as follows:

- Land and Building was purchased at 20% more than the book value.
- Furniture and stock were purchased at book values less 15%.
- The goodwill of the firm was valued at ₹ 40,000.
- The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services, the company was to be paid at 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.
- The purchase price was to be discharged by the company in fully paid equity shares of ₹ 10 each at a premium of ₹ 2 per share. The shares received from the company were distributed between the partners in the ratio of their final claims.

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 1,000 allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital accounts of the partners and the Cash account in the books of partnership firm.

Limited Liabilities Partnership (LLP)

4. Differentiate on ordinary partnership firm with an LLP. Under what circumstances, an LLP may be wound up by the Tribunal?

ESOPs

5. The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2016
Number of employees covered	50
Number of options granted per employee	1,000
Fair value of option per share on grant date (₹)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 65 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/17, 47 on 31/03/18. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2018-19 was ₹ 68.

You are required to compute expenses to be recognised in each year in the books of the company.

Buy Back of Securities

6. Umesh Ltd. resolves to buy back 4 lakhs of its fully paid equity shares of ₹ 10 each at ₹ 22 per share. This buyback is in compliance with the provisions of the Companies Act and does not exceed 25% of Company's paid up capital in the financial year. For the purpose, it issues 1 lakh 11 % preference shares of ₹ 10 each at par, the entire amount being payable with applications. The company uses ₹ 16 lakhs of its balance in Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back. Give necessary journal entries to record the above transactions.

Redemption of Debentures

7. Omega Limited (a manufacturing company) recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue i.e 31.10.20X1.
- (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).
- (d) Underwriting Commission- 2%.
- (e) Number of debentures applied for - 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Underwriting of Shares

8. A company made a public issue of 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4:3:2:1 respectively with the provision of firm underwriting of 5,000, 4,000, 2,000 and 2,000 shares respectively.

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55,000, 40,000, 42,000 and 8,000 shares were marked in favour of L, M, N and O respectively.

Calculate the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of underwriting is not given to the individual underwriter.

Amalgamation of Companies

9. The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	₹	Assets	₹
8,000 Equity shares of ₹ 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- (1) B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- (2) B Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 6,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000. B Ltd. sold prior to 31st March, 2018 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018. Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.

Internal Reconstruction of a Company

10. Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital			
50,000 shares of ₹ 50		Goodwill	22,00,000
each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of ₹ 50		Machinery	8,50,000
each ₹ 40 paid up	40,00,000	Computers	5,20,000
Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of ₹ 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of ₹ 100 each	6,00,000	Cash at Bank	2,68,000
Trade payables	12,40,000	Profit & Loss Account	7,82,000
Outstanding Expenses	<u>10,60,000</u>		
Total	<u>1,03,00,000</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
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 payables 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 payables for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv 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 agrees to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh 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) Goodwill and 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 Company

11. Given below is the Balance Sheet of OM Limited as on 31.3.2019:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
14%, 1,60,000 cumulative preference		Land	1,60,000

shares of ₹100 each fully paid up	16,00,000	Buildings	6,40,000
32,000 equity shares of ₹100 each,		Plant and Machinery	21,60,000
₹ 60 per share paid up	19,20,000	Patents	1,60,000
Reserves and Surplus	NIL	Investments	NIL
Secured Loans:		Current Assets:	
14% debentures	9,20,000	Inventory at cost	4,00,000
(Having a floating charge on all assets)		Trade receivables	9,20,000
Interest accrued on above debentures	1,28,800	Cash at bank	2,40,000
(Also having a floating charge as above)		Profit and Loss A/c	9,60,000
Loan on mortgage of land and building	6,00,000		
Unsecured Loan	NIL		
Current liabilities			
Trade payables	4,71,200		
	56,40,000		56,40,000

On 31.3.2019 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Trade payables include preferential creditors amounting to ₹ 1,20,000.

The assets realized the following sums:

Land ₹ 3,20,000; Buildings ₹ 8,00,000; Plant and machinery ₹ 20,00,000; Patent ₹ 2,00,000; Inventory ₹ 6,40,000; Trade receivables ₹ 8,00,000.

The expenses of liquidation amounted to ₹ 1,17,736. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made on 30th June, 2019. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

Financial Statements of Insurance Companies

12. From the following information as on 31st March, 2019 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of ₹ 7,00,000:

Particulars	Amount ₹
Reserve for unexpired risk on 31st March, 2018	15,00,000
Additional reserve on 31st March, 2018	3,00,000

Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2018	1,95,000
Estimated liability in respect of outstanding claims on 31st March, 2019	2,70,000
Expenses of management (including ₹ 90,000 in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000
Re-insurance recoveries	60,000
Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	3,50,000

Financial Statements of Banking Companies

13. The following is an extract from the Trial Balance of Jeevan Bank Ltd. as at 31st March, 2019:

Rebate on bills discounted as on 1-4- 2018	1,36,518 (Cr.)
Discount received	3,40,312 (Cr.)

Analysis of the bills discounted reveals as follows:

Amount (₹)	Due date
5,60,000	June 1, 2019
17,44,000	June 8, 2019
11,28,000	June 21, 2019
16,24,000	July 1, 2019
12,00,000	July 5, 2019

You are required to find out the amount of discount to be credited to Profit and Loss account for the year ending 31st March, 2019 and pass Journal Entries. The rate of discount may be taken at 10% per annum.

Departmental Accounts

14. A firm has two departments--Sawmill and Furniture. Furniture is made with wood supplied by the Sawmill department at its usual selling price. From the following figures prepare Departmental Trading and Profit and Loss Account for the year 2018:

	Sawmill ₹	Furniture ₹
Opening Stock on 1st January, 2018	1,50,000	25,000
Sales	12,00,000	2,00,000
Purchases	10,00,000	7,500
Supply to Furniture Department	1,50,000	--
Selling expenses	10,000	3,000
Wages	30,000	10,000
Closing Stock on 31st December, 2018	1,00,000	30,000

The value of stocks in the furniture department consist of 75 % wood and 25 % other expenses. The Sawmill Department earned Gross Profit at 15 % on sales in 2017. General expenses of the business as a whole came to ₹ 55,000. The firm adopts FIFO method for assigning costs to inventories.

Branch Accounting

15. From the following particulars relating to Pune branch for the year ending December 31, 2018, prepare Branch Account in the books of Head office.

		₹
Stock at Branch on January 1, 2018		10,000
Branch Debtors on January 1, 2018		4,000
Branch Debtors on Dec. 31, 2018		4,900
Petty cash at branch on January 1, 2018		500
Furniture at branch on January 1, 2018		2,000
Prepaid fire insurance premium on January 1, 2018		150
Salaries outstanding at branch on January 1, 2018		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	

Petty Cash	1,000	
Annual Insurance up to March 31, 2019	<u>600</u>	6,000
Goods returned by the Branch		1,000
Goods returned by the debtors		2,000
Stock on December 31, 2018		5000
Petty Cash spent by branch		850
Provide depreciation on furniture 10% p.a.		

Goods costing ₹ 1,200 were destroyed on account of fire and a sum of ₹ 1,000 was received from the Insurance Company.

Framework for Preparation and Presentation of Financial Statements

16. Aman started a business on 1st April 20X1 with ₹ 24,00,000 represented by 1,20,000 units of ₹ 20 each. During the financial year ending on 31st March, 20X2, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact, calculate the maximum amount, which can be withdrawn by Aman in the year 20X1-X2 if Financial Capital is maintained at historical cost.

Problems based on Accounting Standards

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

17. (a) An earthquake destroyed a major warehouse of PQR Ltd. on 30.4.2019. The accounting year of the company ended on 31.3.2019. The accounts were approved on 30.6.2019. The loss from earthquake is estimated at ₹ 25 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company.

AS 5 Net Profit or loss for the Period, Prior Period Items and Changes in Accounting Policies.

- (b) The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2019. Please advise him in the following situations in accordance with the provisions of relevant Accounting Standard;
- Provision for doubtful debts was created @ 2% till 31st March, 2018. From the Financial year 2018-2019, the rate of provision has been changed to 3%.
 - During the year ended 31st March, 2019, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
 - Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been

changed to 3 years.

- (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.
- (v) During the year ended 31st March, 2019, there was change in cost formula in measuring the cost of inventories.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) (i) Trade receivables as on 31.3.2019 in the books of XYZ Ltd. include an amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, i.e. at US \$ 1 = ₹ 58.50. US \$ 1 = ₹ 61.20 on 31.3.2019.

Explain briefly the accounting treatment needed in this case as per AS 11 as on 31.3.2019.

- (ii) Power Track Ltd. purchased a plant for US\$ 50,000 on 31st October, 2018 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2018, the exchange rate was ₹ 61.50 per Dollar.

You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2019.

AS 12 Accounting for Government Grants

- (b) Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested ₹ 80 crores in the eligible investments. The company is eligible for the subsidy and has received ₹ 20 crores from the government in February 2019. The company wants to recognize the said subsidy as its income to improve the bottom line of the company.

Do you approve the action of the company in accordance with the Accounting Standard?

AS 16 Borrowing Costs

19. (a) Rainbow Limited borrowed an amount of ₹ 150 crores on 1.4.2018 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Rainbow Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2019. Due to surplus fund out of ₹ 150 crores, income of ₹ 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

AS 19 Leases

- (b) Suraj Limited wishes to obtain a machine costing ₹ 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 3 years. It enters into an agreement with Star Ltd., for a lease rental for ₹ 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Suraj Limited is not sure about the treatment of these lease rentals and seeks your advise. (use annuity factor at @ 15% for 3 years as 3.36)

AS 26 Intangible Assets

20. (a) K Ltd. launched a project for producing product X in October, 2018. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2019. 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) XYZ Ltd. has not made provision for warrantee in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warrantees on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29.

SUGGESTED ANSWERS/HINTS

1.

Realisation Account

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Building	1,90,000	By Trade creditors	80,000
To Stock	1,30,000	By Bills payable	30,000
To Investment	50,000	By Cash	
To Debtors	70,000	Building	2,09,000
To Cash-creditors paid (W.N.1)	63,650	Stock	1,20,000
To Cash-expenses	8,000	Investments (W.N.2)	40,000
To Cash-bills payable (30,000-500)	29,500	Debtors (W.N. 3)	<u>56,700</u>
			4,25,700

To Partners' Capital A/cs		By R – (Receipt from Debtors unrecorded)	7,000
P 4,183		By R - Receipt from Investments unrecorded	11,000
Q 4,183			
R 2,789			
S 1,395	<u>12,550</u>		
	<u>5,53,700</u>		<u>5,53,700</u>

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	30,000	By Realisation-creditors paid	63,650
To Realisation – assets realised		By Realisation-bills payable	29,500
Building 2,09,000		By Realisation-expenses	8,000
Stock 1,20,000		By Capital accounts:	
Investments 40,000		P	1,51,132
Debtors <u>56,700</u>	4,25,700	Q	1,51,132
To R's capital A/c	<u>7,000</u>	S	<u>59,286</u>
	<u>4,62,700</u>		<u>4,62,700</u>

Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Realisation A/c-Debtors-misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445
To Realisation A/c-Investment-misappropriation			11,000		By Realisation profit	4,183	4,183	2,789	1,395
To R's capital A/c (W.N. 4)	16,384	16,384		6,554	By Cash A/c			7,000	
To Cash A/c	1,51,132	1,51,132		59,286	By P's capital A/c			16,384	

					By Q's capital A/c			16,384	
					By S's capital A/c			6,554	
	<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>		<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>

Working Notes:**1. Amount paid to creditors in cash**

	₹
Book value	80,000
Less: Creditors taking over investments	<u>(13,000)</u>
	67,000
Less: Discount @ 5%	<u>(3,350)</u>
	<u>63,650</u>

2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by R	<u>(8,000)</u>
	42,000
Less: Taken over by a creditor	<u>(9,000)</u>
	33,000
Add: Profit on sale of investments	<u>7,000</u>
Cash received from sale of remaining investment	<u>40,000</u>

3. Amount received from debtors

	₹
Book value	70,000
Less: Unrecorded receipt	<u>(7,000)</u>
	63,000
Less: Discount @ 10%	<u>(6,300)</u>
	<u>56,700</u>

4. Deficiency of R

	₹
Balance of capital as on 31 st March, 2019	40,000

Debtors-misappropriation	7,000
Investment-misappropriation	<u>11,000</u>
	58,000
Less: Realisation Profit	(2,789)
General reserve	(8,889)
Contribution from private assets	<u>(7,000)</u>
Net deficiency of capital	<u>39,322</u>

This deficiency of ₹ 39,322 in R's capital account will be shared by other partners P, Q and S in their capital ratio of 15 : 15 : 6.

Accordingly,

P's share of deficiency = $[39,322 \times (15/36)] = ₹ 16,384$

Q's share of deficiency = $[39,322 \times (15/36)] = ₹ 16,384$

S's share of deficiency = $[39,322 \times (6/36)] = ₹ 6,554$

2. (a) **Balance Sheet of the PQR Pvt. Ltd. as on 1-4-2019**

	Note No.	₹
Equity and Liabilities		
<i>Shareholders funds</i>		
Share capital	1	1,90,000
<i>Current liabilities</i>		
Trade Payables		<u>48,000</u>
Total		<u>2,38,000</u>
Assets		
<i>Non-current assets</i>		
Property, Plant and Equipment		
Tangible assets	2	1,22,000
Intangible assets	3	36,000
<i>Current assets</i>		
Inventories		50,000
Trade Receivables		<u>30,000</u>
Total		<u>2,38,000</u>

Notes to Accounts

	₹
1. <i>Share Capital</i>	
Equity share capital 18,000 fully paid shares of ₹ 10 each	1,80,000
Preference share capital (9% Preference Shares)	<u>10,000</u>
(All the shares have been issued for consideration other than cash)	<u>1,90,000</u>
2. <i>Tangible assets</i>	
Plant and Machinery	1,02,000
Fixtures	<u>20,000</u>
	<u>1,22,000</u>
3. <i>Intangible assets</i>	
Goodwill	36,000

(b) In the books of Partnership Firm**Partners' Capital Accounts**

	P ₹	Q ₹	R ₹		P ₹	Q ₹	R ₹
To Plant and machinery account	3,000	2,000	1,000	By Balance b/d	50,000	30,000	20,000
To Equity shares in PQR Pvt. Ltd.	90,000	60,000	30,000	By Reserve fund	30,000	20,000	10,000
To 9% Preference shares in PQR Pvt. Ltd.	5,000		5,000	By Realization A/c (Profit on sale of business)	18,000	12,000	6,000
	<u>98,000</u>	<u>62,000</u>	<u>36,000</u>		<u>98,000</u>	<u>62,000</u>	<u>36,000</u>

(c) Statement showing the final settlement between the Partners taking Q's capital as basis

	P	Q	R	Total
	₹	₹	₹	₹
Value of Equity Shares to be allotted, taking Q's capital as basis				
P's Capital = $60,000 \times \frac{3}{2}$	90,000	60,000	30,000	
R's Capital = $60,000 \times \frac{1}{2}$				

Total Value of Equity Shares allotted to P,Q and R				1,80,000
9% Preference Shares to be allotted to P ₹ (95,000-90,000)	5,000			
9%Preference Shares to be allotted to R ₹ (35,000-30,000)			5,000	
Total Value of Preference Shares allotted to P and R				<u>10,000</u>
Total Purchase Consideration				<u>1,90,000</u>

Taking Q's capital as Basis, both P and R have ₹ 5,000 each as excess in their capital account balances. Since interest on capital is meant to compensate those whose capital is in excess of proportionate limits and since in the case of partners it is an appropriation of profit, it will be proper to give 9% preference shares to P and R for ₹ 5,000 each and the remaining amount of ₹ 1,80,000 in the form of Equity Shares to be divided among P, Q and R in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing preference dividend.

Working Notes:

1. Calculation of goodwill

	2014-15 ₹	2015-16 ₹	2016-17 ₹	2017-18 ₹	2018-19 ₹
Profits	10,000	(5,000)	18,000	27,000	30,000
Adjustment for abnormal loss in 2015-16	—	10,000	—	—	—
	10,000	5,000	18,000	27,000	30,000
Total Profit from 2014-15 to 2018-19					90,000
Average Profit (90,000 / 5)					18,000
Goodwill equal to 2 years' purchase					36,000

2 Purchase consideration -

Assets :	₹
Goodwill	36,000
Plant & Machinery	1,02,000
Fixtures	20,000
Stock	50,000

Sundry Debtors	<u>30,000</u>
	2,38,000
Less: Liabilities:	
Creditors	<u>48,000</u>
Purchase Consideration	<u>1,90,000</u>

3. **Books of Partnership Firm**
Realisation Account

	₹			₹
To Land & Building	1,00,000	By Sundry Creditors		60,000
To Furniture	40,000	By X Ltd. Company –		
To Stock	1,00,000	Sundry Debtors	66,000	
To Debtors	66,000	Less: Commission		
To X Ltd. Co. - Sundry		5% on 66,000	<u>3,300</u>	62,700
Creditors	59,000	By X Ltd. Co. - Purchase		
To X Ltd. Co. – Commission		consideration – (W.N.1)		2,79,000
3% on 59,000	1,770			
To Profits transferred to				
X's Capital A/c 17,465				
Y's Capital A/c <u>17,465</u>	<u>34,930</u>			
	<u>4,01,700</u>			<u>4,01,700</u>

Capital Accounts

	X	Y		X	Y
	₹	₹		₹	₹
To Shares in X Ltd. Co.-(W.N.2)	1,63,980	1,15,020	By Balance b/d	1,50,000	1,00,000
To Cash – Final Payment	<u>3,485</u>	<u>2,445</u>	By Realisation a/c - Profit	<u>17,465</u>	<u>17,465</u>
	<u>1,67,465</u>	<u>1,17,465</u>		<u>1,67,465</u>	<u>1,17,465</u>

Cash Account

	₹		₹
To Balance b/d	4,000	By X's Capital A/c- Final payment	3,485

To	X Ltd. Co. (Amount realized from Debtors less amount paid to creditors) – (W.N.3)		By	Y's Capital A/c- Payment	Final	
		<u>1,930</u>				2,445
		<u>5,930</u>				<u>5,930</u>

Working Notes:**1. Calculation of Purchase consideration**

	₹
Land & Building	1,20,000
Furniture	34,000
Stock	85,000
Goodwill	<u>40,000</u>
	<u>2,79,000</u>

2. Shares received from X Ltd. Co.

The shares received from the company have been distributed between the two partners X & Y in the ratio of their final claims i.e., 1,67,465: 1,17,465.

$$\text{No. of shares received from the company} = \frac{2,79,000}{12} = 23,250$$

$$\text{X gets } \frac{23,250 \times 1,67,465}{2,84,930} = 13,665 \text{ shares valued at } 13,665 \times 12 = ₹ 1,63,980.$$

Y gets the remaining 9,585 shares, valued at ₹ 1,15,020 (9,585 × 12)

3. Calculation of net amount received from X Ltd

		₹
	Amount realized from Debtors	66,000
Less:	Commission for realization from debtors (5% on 66,000)	<u>3,300</u>
		62,700
Less:	Amount paid to creditors	<u>59,000</u>
		3,700
Less:	Commission for cash paid to creditors (3% on 59,000)	<u>1,770</u>
	Net amount received	<u>1,930</u>

4. Distinction between an ordinary partnership firm and an LLP

	<i>Key Elements</i>	<i>Partnerships</i>	<i>LLPs</i>
1	Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
2	Registration	Optional	Compulsory with ROC
3	Creation	Created by an Agreement	Created by Law
4	Body Corporate	No	Yes
5	Separate Legal Entity	No	Yes
6	Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go
7	Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
8	Ownership of Assets	Firm cannot own any assets. The partners own the assets of the firm	The LLP as an independent entity can own assets
9	Liability of Partners / Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to their personal assets also.	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
10	Principal Agent Relationship	Partners are the agents of the firm and of each other partner.	Partners are agents of the firm only and not of other partners.

Under section 64 of the LLP Act, 2008, an LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;

- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
 - If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
 - If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.
5. The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than ₹ 65. The company should recognise value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme = $48 \times 1,000 = 48,000$

Fair value = $48,000 \times ₹ 9 = ₹ 4,32,000$

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = $₹ 4,32,000 / 3 = ₹ 1,44,000$

Year 2017-18

Fair value of option per share = ₹ 9

Number of shares expected to vest under the scheme = $47 \times 1,000 = 47,000$

Fair value = $47,000 \times ₹ 9 = ₹ 4,23,000$

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= $(₹ 4,23,000 / 3) \times 2 = ₹ 2,82,000$

Value of option recognised as expense in 2016-17 = ₹ 1,44,000

Value of option recognised as expense in 2017-18

= $₹ 2,82,000 - ₹ 1,44,000 = ₹ 1,38,000$

Year 2018-19

Fair value of option per share = ₹ 9

Number of shares actually vested under the scheme = $45 \times 1,000 = 45,000$

Fair value = $45,000 \times ₹ 9 = ₹ 4,05,000$

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 = ₹ 4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = ₹ 2,82,000

Value of option recognised as expense in 2018-19 = ₹ 4,05,000 – ₹ 2,82,000 = ₹ 1,23,000

6. Journal Entries in the books of Umesh Ltd.

			₹	₹
1.	Bank A/c To 11% Preference share application & allotment A/c (Being receipt of application money on preference shares)	Dr.	10,00,000	10,00,000
2.	11% Preference share application & allotment A/c To 11% Preference share capital A/c (Being allotment of 1 lakh preference shares)	Dr.	10,00,000	10,00,000
3.	General reserve A/c To Capital redemption reserve A/c (Being creation of capital redemption reserve for buy back of shares)	Dr.	30,00,000	30,00,000
4.	Equity share capital A/c Premium payable on buyback A/c To Equity shareholders/Equity shares buy back A/c (Amount payable to equity shareholder on buy back)	Dr. Dr.	40,00,000 48,00,000	88,00,000
5.	Equity shareholders/ Equity shares buy back A/c To Bank A/c (Being payment made for buy back of shares)	Dr.	88,00,000	88,00,000
6.	Securities Premium A/c General reserve A/c To Premium payable on buyback A/c (Being premium on buyback charged from securities premium and general reserve)	Dr.	16,00,000 32,00,000	48,00,000

Working Notes:**1. Calculation of amount used from General Reserve Account**

	₹
Amount paid for buy back of shares (4,00,000 shares x ₹ 22)	88,00,000
Less: Proceeds from issue of Preference Shares (1,00,000 shares x ₹10)	(10,00,000)
Less: Utilisation of Securities Premium Account	(16,00,000)
Balance used from General Reserve Account	<u>62,00,000</u>
* Used under Section 68 for buy back	32,00,000
Used under Section 69 for transfer to CRR (W.N 2)	<u>30,00,000</u>
	<u>62,00,000</u>

2. Amount to be transferred to Capital Redemption Reserve account

	₹
Nominal value of shares bought back (4,00,000 shares x ₹10)	40,00,000
Less: Nominal value of Preference Shares issued for such buy back (1,00,000 shares x ₹10)	(10,00,000)
Amount transferred to Capital Redemption Reserve Account	<u>30,00,000</u>

7. Journal Entries in the books of Omega Ltd.

Date	Particulars	Amount Dr.	Amount Cr.
1.5.20X1	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹ 100 each)	₹ 1,50,00,000	₹ 1,50,00,000
1.6.20X1	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2%)	4,00,000	4,00,000

	on ₹ 2,00,00,000)			
	Bank A/c Dr.	46,00,000		
	To Underwriters A/c		46,00,000	
	(Amount received from underwriters in settlement of account)			
01.06.20X1	Profit & Loss A/c Dr.	20,00,000		
	To Debenture Redemption Reserve A/c		20,00,000	
	(200,000 X 100 X 25% X 40%)			
	(Being Debenture Redemption Reserve created on non-convertible debentures)			
	Debenture Redemption Reserve Investment A/c	12,00,000		
	To Bank A/c (200,000 X 100 x 15% X 40%)		12,00,000	
	(Being Investments made for redemption purpose)			
30.9.20X1	Debenture Interest A/c Dr.	10,00,000		
	To Bank A/c		10,00,000	
	(Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)			
31.10.20X1	15% Debentures A/c Dr.	1,20,00,000		
	To Equity Share Capital A/c		20,00,000	
	To Securities Premium A/c		1,00,00,000	
	(Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)			
31.3.20X2	Debenture Interest A/c Dr.	7,50,000		
	To Bank A/c		7,50,000	
	(Interest paid on debentures for the half year) (refer working note below)			

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On ₹ 80,00,000 for 6 months @ 15% = ₹ 6,00,000

On ₹ 1,20,00,000 for 1 months @ 15% = ₹ 1,50,000

₹ 7,50,000

8. Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	No. of shares				
	L	M	N	O	Total
Gross liability	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Applications (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting (WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)
Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Total Liability	20,000	16,500	2,000	11,500	50,000

Working Note:

Particulars	No. of shares
Applications received from public	1,50,000
Add: Firm underwriting	13,000
Total Applications	1,63,000
Less: Marked application	(1,45,000)
Unmarked application including firm underwriting	18,000

- 9.

Books of A Limited

Realisation Account

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		

To Bank (Exp.)	<u>16,000</u>		<u>16,06,000</u>
	<u>16,06,000</u>		<u>16,06,000</u>

Bank Account

To Balance b/d	1,36,000	By Realisation (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	<u>1,60,000</u>
	<u>7,36,000</u>		<u>7,36,000</u>

10% Debentures Account

To Bank	<u>4,00,000</u>	By Balance b/d	<u>4,00,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

Loan Account

To Bank	<u>1,60,000</u>	By Balance b/d	<u>1,60,000</u>
	<u>1,60,000</u>		<u>1,60,000</u>

Share Issue Expenses Account

To Balance b/d	<u>34,000</u>	By Equity shareholders	<u>34,000</u>
	<u>34,000</u>		<u>34,000</u>

General Reserve Account

To Equity shareholders	<u>80,000</u>	By Balance b/d	<u>80,000</u>
	<u>80,000</u>		<u>80,000</u>

B Ltd. Account

To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹ 125 each)	<u>6,10,000</u>
	<u>12,10,000</u>		<u>12,10,000</u>

Equity Shares in B Ltd. Account

To B Ltd.	<u>6,10,000</u>	By Equity shareholders	<u>6,10,000</u>
	<u>6,10,000</u>		<u>6,10,000</u>

Equity Share Holders Account

To Realisation	76,000	By Equity share capital	8,00,000
To Share issue Expenses	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		

To Bank	1,60,000	
	<u>8,80,000</u>	<u>8,80,000</u>

B Ltd
Balance Sheet as on 1st April, 2019 (An extract)*

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	Current liabilities		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
	Total		14,75,000
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment		
	Tangible assets	4	8,82,000
	Intangible assets	5	2,16,000
2	Current assets		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

		₹
1	Share Capital	
	Equity share capital	
	4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)	4,88,000
	Total	4,88,000

* In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

2	Reserves and Surplus (an extract)		
	Securities Premium		1,22,000
	Profit and loss account		
	Less: Unrealised profit	(15,000)	(15,000)
	Total		<u>1,07,000</u>
3	Trade payables		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	Tangible assets		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		<u>8,82,000</u>
5	Intangible assets		
	Goodwill		2,16,000
6	Inventories		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000
7	Trade receivables		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	1,24,400
Less: 8% of ₹ 8,80,000	(70,400)
Super profit	<u>54,000</u>
Value of Goodwill = 54,000 x 4	<u>2,16,000</u>
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000

Inventory	1,98,000
Trade receivables (2,60,000-26,000)	<u>2,34,000</u>
Total Assets	15,30,000
Less: Trade payables	<u>(3,20,000)</u>
Net Assets	<u>12,10,000</u>

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted $6,10,000/125 = 4,880$ shares.

3. Unrealised Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	<u>(10,000)</u>
Amount of unrealized profit	<u>15,000</u>

10.

Journal Entries in the books of Platinum Ltd.

		₹	₹
Bank A/c (1,00,000 x ₹ 10)	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 (Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			1,47,000
8% Debentures A/c Dr.	3,00,000		
12% Debentures A/c Dr.	4,00,000		
To Shiv A/c (Being cancellation of 8% and 12% debentures of Shiv)			7,00,000
Bank A/c Dr.	1,00,000		
To Shiv A/c (Being new debentures subscribed by Shiv)			1,00,000
Shiv A/c Dr.	8,00,000		
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			2,00,000
8% Debentures A/c Dr.	1,00,000		
12% Debentures A/c Dr.	2,00,000		
To Ganesh A/c (Being cancellation of 8% and 12% debentures of Ganesh)			3,00,000
Ganesh A/c Dr.	3,00,000		
To 15% Debentures A/c			2,50,000
To Capital Reduction A/c (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			50,000
Land and Building Dr. (51,84,000 – 42,70,000)	9,14,000		
Inventories Dr.	30,000		
To Capital Reduction A/c (Being value of assets appreciated)			9,44,000
Outstanding expenses A/c Dr.	10,60,000		

To Bank A/c (Being outstanding expenses paid in cash)			10,60,000
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 Goodwill A/c			22,00,000
To Profit and Loss A/c			7,82,000
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill 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 (as reduced) as on 31.3.2019

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 Property, Plant and Equipment		
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**

Particulars	₹	Particulars	₹
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 Shiv A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. Capital Reduction Account

Particulars	₹	Particulars	₹
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 Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000

	<u>33,41,000</u>	By Capital Reserve A/c	<u>5,00,000</u>
			<u>33,41,000</u>

11.

OM Ltd.

Liquidator's Final Statement of Account

Receipts	Value Realised		Payments ₹	Payments ₹
<i>Assets Realised:</i>				
Cash at Bank	2,40,000	Liquidator's Remuneration (W.N. 1)		1,02,224
Trade receivables	8,00,000	Liquidation Expenses		1,17,736
Inventory	6,40,000	Debentureholders:		
Plant and Machinery	20,00,000	14% Debentures	9,20,000	
Patent	2,00,000	Interest Accrued (W.N. 2)	<u>1,61,000</u>	10,81,000
Surplus from Securities (W.N. 3)	5,20,000	Creditors:		
		Preferential	1,20,000	
		Unsecured	<u>3,51,200</u>	4,71,200
		Preference Shareholders:		
		Preference Share Capital	16,00,000	
		Arrears of Dividend	<u>2,24,000</u>	18,24,000
		Equity Shareholders (W.N.4) :		
		₹25.12 per share on 32,000 shares		<u>8,03,840</u>
	<u>44,00,000</u>			<u>44,00,000</u>

Working Notes:

		₹
1	Liquidator's remuneration:	
	2% on assets realised (2% of ₹47,60,000)	95,200
	2% on payments to unsecured creditors (2% on ₹3,51,200)	<u>7,024</u>
		<u>1,02,224</u>

2	Interest accrued on 14% Debentures:	
	Interest accrued as on 31.3.2019	1,28,800
	Interest accrued upto the date of payment i.e. 30.6.2019	<u>32,200</u>
		<u>1,61,000</u>
3	Surplus from Securities:	
	Amount realised from Land and Buildings (₹ 3,20,000 + ₹ 8,00,000)	11,20,000
	Less: Mortgage Loan	<u>(6,00,000)</u>
		<u>5,20,000</u>
4	Amount payable to Equity Shareholders:	
	Equity share capital (paid up)	19,20,000
	Less: Amount available for equity shareholders	<u>(8,03,840)</u>
	Loss to be borne by equity shareholders	<u>11,16,160</u>
	Loss per equity share (₹11,16,160/32,000)	34.88
	Amount payable to equity shareholders for each equity share (60-34.88)	25.12

12.

FORM B– RA**Name of the Insurer: Xeta Insurance Company Limited****Registration No. and Date of registration with IRDA:****Revenue Account for the year ended 31st March, 2019**

Particulars	Schedule	Amount (₹)
Premium earned (net)	1	26,67,500
Profit on sale of investment		30,000
Others		–
Interest and dividend (gross)		1,50,000
Total (A)		<u>28,47,500</u>
Claims incurred (Net)	2	20,25,000
Commission	3	3,50,000
Operating expenses related to insurance	4	7,50,000
Total (B)		<u>31,25,000</u>
Operating loss from insurance business (A) – (B)		<u>2,77,500</u>

Schedule –1 Premium earned (net)

	₹
Premium received	33,60,000
Less: Premium on reinsurance ceded	(2,25,000)
Net Premium	31,35,000
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(4,67,500)
Total premium earned	<u>26,67,500</u>

Schedule -2 Claims incurred (net)

	₹
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31 st March, 2019	2,70,000
	22,20,000
Less: Claims outstanding as on 31 st March, 2018	(1,95,000)
	<u>20,25,000</u>

Schedule -3 Commission

	₹
Commission paid	3,50,000

Schedule-4 Operating expenses related to Insurance Business

	₹
Expenses of management (8,40,000 - 90,000)	7,50,000

Working Note:**Calculation for change in Reserve for Unexpired risk:**

		₹
Reserve for Unexpired Risk as on 31 st March, 2019 (50% of 31,35,000)	15,67,500	
Additional Reserve as on 31 st March, 2019	<u>7,00,000</u>	22,67,500

Less: Reserve for Unexpired Risk as on 31 st March, 2018	15,00,000	
Additional Reserve as on 31 st March, 2018	<u>3,00,000</u>	(18,00,000)
		<u>4,67,500</u>

13. The amount of rebate on bills discounted as on 31st March, 2019 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹5,60,000 for 62 days @ 10%	9,512
Discount on ₹17,44,000 for 69 days @ 10%	32,969
Discount on ₹11,28,000 for 82 days @ 10%	25,341
Discount on ₹16,24,000 for 92 days @ 10%	40,934
Discount on ₹12,00,000 for 96 days @ 10%	<u>31,562</u>
Total	<u>1,40,318</u>

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 31.03.2018	1,36,518
Add: Discount received during the year	<u>3,40,312</u>
	4,76,830
Less: Rebate on bills discounted as on 31.03.2019 (as above)	<u>(1,40,318)</u>
	<u>3,36,512</u>

Journal Entries

		₹	₹
Rebate on bills discounted A/c	Dr.	1,36,518	
To Discount on bills A/c			1,36,518
(Transfer of opening unexpired discount on 31.03. 2018)			
Discount on bills A/c	Dr.	1,40,318	
To Rebate on bills discounted A/c			1,40,318
(Unexpired discount on 31.03. 2019 taken into account)			
Discount on Bills A/c	Dr.	3,36,512	
To P & L A/c			3,36,512
(Discount earned in the year, transferred to P&L A/c)			

14. Department Trading and Profit and Loss Account

Particulars	Sawmill	Furniture	Particulars	Sawmill	Furniture
To Opening stock	1,50,000	25,000	By Sales	12,00,000	2,00,000
To Purchase	10,00,000	7,500	By Transfer to furniture dept	1,50,000	
To Wages	30,000	10,000	By Closing stock	1,00,000	30,000
To Transfer from saw mill	-	1,50,000			
To Gross profit	<u>2,70,000</u>	<u>37,500</u>			
	<u>14,50,000</u>	<u>2,30,000</u>		<u>14,50,000</u>	<u>2,30,000</u>
To Selling expenses	10,000	3,000	By Gross profit	2,70,000	37,500
To Net Profit	<u>2,60,000</u>	<u>34,500</u>			
	<u>2,70,000</u>	<u>37,500</u>		<u>2,70,000</u>	<u>37,500</u>

General Profit & Loss Account

Particulars	Amount	Particulars	Amount
To general Expenses	55,000	By Net Profit from	
To stock reserve (WN2)	4,500	Saw Mill	2,60,000
To Net Profit	2,37,813	Furniture	34,500
		By stock reserve (opening WN-1)	2,813
	<u>2,97,313</u>		<u>2,97,313</u>

Working Notes

- Calculation of Stock Reserve (opening)
 $25,000 \times 75\% \text{ wood} \times 15\% = ₹ 2,813$
- Calculation of closing stock reserve
 Gross profit Rate of Saw Mill of 2018
 $2,70,000 / (12,00,000 + 1,50,000) \times 100 = 20\%$
 $30,000 \times 75\% \times 20\% = ₹ 4,500$

15. Pune Branch Account

Particulars		₹	Particulars	₹	₹
To Opening Balance Stock		10,000	By Opening Balance: Salaries outstanding		100

Debtors		4,000	By Remittances:		
Petty Cash		500	Cash sales	1,30,000	
Furniture		2,000	Cash received from debtors	35,000	
Prepaid Insurance		150	Cash paid by debtors directly to H.O.	2,000	
To Goods sent to Branch Account		80,000	Received from Insurance Company	<u>1,000</u>	1,68,000
To Bank (expenses)			By Goods sent to branch (return of goods by the branch to H.O.)		1,000
Rent	2,000		By Closing Balances:		
Salaries	2,400		Stock		5,000
Petty Cash	1,000		Petty Cash		650
Insurance	<u>600</u>	6,000	Debtors		4,900
To Net Profit		78,950	Furniture (2,000 – 10% depreciation)		1,800
			Prepaid insurance (1/4 x ₹ 600)		150
		1,81,600			1,81,600

Working Note:

Calculation of petty cash balance at the end:	₹
Opening balance	500
Add: Cash received from the Head Office	<u>1,000</u>
Total Cash with branch	1,500
Less: Spent by the branch	<u>850</u>
Closing balance	<u>650</u>

16.

Particulars	Financial Capital Maintenance at Historical Cost (₹)
Closing equity (₹ 30 x 1,20,000 units)	36,00,000 represented by cash

Opening equity	1,20,000 units x ₹ 20 = 24,00,000
Permissible drawings to keep Capital intact	12,00,000 (36,00,000 – 24,00,000)

17. (a) Para 8.3 of AS 4 “Contingencies and Events Occurring after the Balance Sheet Date”, states that 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. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognised in the financial year 2018-2019.

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the Report of the Directors for the financial year 2018-2019.

- (b) (i) In the given case, Mobile limited created 2% provision for doubtful debts till 31st March, 2018. Subsequently in 2018-19, the company revised the estimates based on the changed circumstances and wants to create 3% provision. Thus change in rate of provision of doubtful debt is change in estimate and is not change in accounting policy. This change will affect only current year.
- (ii) As per AS 5, the adoption of an accounting policy for events or transactions that differ in substance from previously occurring events or transactions, will not be considered as a change in accounting policy. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement is a transaction which is substantially different from the previous policy, will not be treated as change in an accounting policy.
- (iii) Change in useful life of furniture from 5 years to 3 years is a change in estimate and is not a change in accounting policy.
- (iv) Adoption of a new accounting policy for events or transactions which did not occur previously should not be treated as a change in an accounting policy. Hence the introduction of new pension scheme is not a change in accounting policy.
- (v) Change in cost formula used in measurement of cost of inventories is a change in accounting policy.
18. (a) (i) As per AS 11 “The Effects of Changes in Foreign Exchange Rates”, exchange differences arising on the settlement of monetary items or on reporting an enterprise’s monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements,

should be recognized as income or as expenses in the period in which they arise.

Accordingly, exchange difference on trade receivables amounting ₹ 23,076 {₹ 5,23,076 (US \$ 8547* x ₹ 61.20) less ₹ 5,00,000} should be charged to profit & Loss account.

(ii) 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, 2018 to 31 st March, 2019 i.e. 5 months falling in the year 2018-2019	5 months
Hence, Loss for 5 months will be ₹ 1,37,500 × $\frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2019.

- (b) As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof.

Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its

* US \$ 8,547 = 5,00,000/58.50

financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.

19. (a) Para 10 of AS 16 'Borrowing Costs' states "To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings." The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Rainbow Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2018-2019 should be calculated as follows:

	₹ in crores
Actual interest for 2018-2019 (11% of ₹ 150 crores)	16.50
Less: Income on temporary investment from specific borrowings	(3.50)
Borrowing costs to be capitalized during year 2018-2019	13.00

- (b) As per AS 19 'leases', a lease will be classified as finance lease if at the inception of the lease, the present value of minimum lease payment* amounts to at least substantially all of the fair value of leased asset. In the given case, the implicit rate of interest is given at 15%. The present value of minimum lease payments at 15% using PV- Annuity Factor can be computed as:

Annuity Factor (Year 1 to Year 3)	3.36
Present Value of minimum lease payments (₹3 lakhs each year)	₹10.08 lakhs (approx.)

Thus present value of minimum lease payments is ₹10.08 lakhs and the fair value of the machine is ₹ 30 lakhs. In a finance lease, lease term should be for the major part of the economic life of the asset even if title is not transferred. However, in the given case, the effective useful life of the machine is 14 years while the lease is only for three years. Therefore, lease agreement is an operating lease. Lease payments under an operating lease should be recognized as an expense in the statement of profit and loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

* In calculating the present value of the of minimum lease payments, the discount rate is the interest rate implicit in the lease.

20. (a) As per para 41 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 derecognised 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, 2019.

- (b) As per para 46 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 recognised 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 recognised 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 is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.