

PAPER – 5: ADVANCED ACCOUNTING

**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY
FOR NOVEMBER, 2021 EXAMINATION**

A. Applicable for November, 2021 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. Sale of Securities held in Held to Maturity (HTM) Category

Accounting treatment

Investments by Primary (Urban) Co-operative Banks (UCBs) if securities acquired by banks with the intention to hold them up to maturity will be classified under HTM category. As per Circular no. RBI/2018-19/205 DCBR.BPD. (PCB) Cir.No.10/16.20.000/2018-19 dated 10th June, 2019, it is reiterated that UCBs are not expected to resort to sale of securities held in HTM category. However, if due to liquidity stress, UCBs are required to sell securities from HTM portfolio, they may do so with the permission of their Board of Directors and rationale for such sale may be clearly recorded. Profit on sale of investments from HTM category shall first be taken to the Profit and Loss account and, thereafter, the amount of such profit shall be appropriated to ‘Capital Reserve’ from the net profit for the year after statutory appropriations. Loss on sale shall be recognized in the Profit and Loss account in the year of sale.

Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks

As per Circular no. RBI/2018-19/204 DBR.No.BP.BC.46/21.04.141/2018-19 dated 10th June, 2019 (referring to RBI circular DBR No BP.BC.6/21.04.141/2015-16 dated

July 1, 2015 advising banks that if the value of sales and transfer of securities to / from HTM category exceeds 5 per cent of the book value of investments held in HTM category at the beginning of the year) banks should disclose the market value of the investments held in the HTM category and indicate the excess of book value over market value for which provision is not made. Apart from transactions that are already exempted from inclusion in the 5 per cent cap, it has been decided that repurchase of State Development Loans (SDLs) by the concerned state government shall also be exempted.

III. Merging three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called Investment and Credit Company (NBFC-ICC)

As per circular RBI/2018-19/130 DNBR (PD) CC.No.097/03.10.001/2018-19 dated February 22, 2019, in order to provide NBFCs with greater operational flexibility, it has been decided that harmonisation of different categories of NBFCs into fewer ones shall be carried out based on the principle of regulation by activity rather than regulation by entity. Accordingly, it has been decided to merge the three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called NBFC - Investment and Credit Company (NBFC-ICC). Investment and Credit Company (NBFC-ICC) means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the RBI in any of its Master Directions. (Circular DBR.BP.BC.No.25/21.06.001/2018-19 dated 22 February 2019)

Differential regulations relating to bank's exposure to the three categories of NBFCs viz., AFCs, LCs and ICs stand harmonized vide Bank's circular DBR.BP.BC.No.25/21.06.001/2018-19 dated February 22, 2019. Further, a deposit taking NBFC-ICC shall invest in unquoted shares of another company which is not a subsidiary company or a company in the same group of the NBFC, an amount not exceeding twenty per cent of its owned fund. All related Master Directions (Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016, Standalone Primary Dealers (Reserve Bank) Directions, 2016 and Residuary Non-Banking Companies (Reserve Bank) Directions, 2016) have also been updated accordingly.

NOTE: October, 2020 Edition of the Study Material on Paper 5 Advanced Accounting is applicable for November, 2021 Examination which incorporates the above amendments. The students who have editions prior to October, 2020 may refer above amendments.

B. Not applicable for November, 2021 examination**Non-Applicability of Ind AS for November, 2021 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, 2021 Examination.

PART – II : QUESTIONS AND ANSWERS**QUESTIONS****Dissolution of Partnership Firm**

1. (a) P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2021 was as follows:

Balance Sheet as on 31st March, 2021

Equity and Liabilities	₹	Assets	₹
Capitals:		Bank	30,000
P	1,00,000	Debtors	25,000
Q	<u>50,000</u>	Stock	35,000
Creditors	20,000	Furniture	40,000
Q's current account	10,000	Machinery	60,000
Reserves	15,000	P's current account	10,000
Bank overdraft	5,000		
	<u>2,00,000</u>		<u>2,00,000</u>

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for ₹ 30,000 and ₹ 50,000 respectively; There was an unrecorded investment which was sold for ₹ 25,000; Debtors realized 90% only and ₹ 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for ₹ 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

4

INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

Limited Liability Partnerships

- (b) Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following:
- (1) Applicable Law
 - (2) Perpetual Succession
 - (3) Number of Partners
 - (4) Ownership of Assets
 - (5) Liability of Partners/Members
 - (6) Principal-Agent Relationship.

Conversion of Partnership firms into a company

2. The following is the Balance Sheet of M/s. R and S as on 31st March, 2019:

Equity and Liabilities	₹	Assets	₹
Capital Accounts:		Machinery	54,000
R	50,000	Furniture	5,000
S	30,000	Investments (non-trading)	50,000
Reserves	20,000	Stock	20,000
Loan Account of S	15,000	Debtors	21,000
Creditors	40,000	Cash	5,000
	1,55,000		1,55,000

It was agreed that Mr. T is to be admitted for a fourth share in the future profits from 1st April, 2019. He is required to contribute cash towards goodwill and ₹ 15,000 towards capital.

The following further information is furnished:

- (a) R & S share the profits in the ratio 3 : 2.
- (b) R was receiving salary of ₹ 750 per month from the very inception of the firm in 2012 in addition to share of profit.
- (c) The future profit ratio between R, S & T will be 2:1:1. R will not get any salary after the admission of T.
- (d) It was agreed that the value of goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. Goodwill was not to be raised in the books. The particulars of the profits are as under:

Year ended	Profit/(Loss)
31 st March, 2015	25,000

PAPER – 5 : ADVANCED ACCOUNTING

5

31 st March, 2016	12,500
31 st March, 2017	(2,500)
31 st March, 2018	35,000
31 st March, 2019	30,000

The above Profits and Losses are after charging the Salary of R. The Profit of the year ended 31st March, 2015 included an extraneous profit of ₹ 40,000 and the loss for the year ended 31st March, 2017 was on account of loss by strike to the extent of ₹ 20,000.

- (e) The cash trading profit for the year ended 31st March, 2020 was ₹ 50,000 before depreciation.
- (f) The partners had drawn each ₹ 1,000 per month as drawings.
- (g) The value of other assets and liabilities as on 31st March, 2020 were as under:

	₹
Machinery (before depreciation)	60,000
Furniture (before depreciation)	10,000
Investment	50,000
Stock	15,000
Debtors	30,000
Creditors	20,000

- (h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the closing balance and interest is accumulated @ 6% on S's loan. The loan along with interest would be repaid within next 12 months.
- (i) Investments (non -trading) are held from inception of the firm and interest is received @ 10% p.a.
- (j) The partners applied for conversion of the firm into Karma Ltd., a Private Limited Company. Certificate was received on 1st April, 2020. They decided to convert Capital Accounts of the partners into share capital in the ratio of 2:1:1 on the basis of a total capital as on 31st March, 2020. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2020 and the Balance Sheet of the Company as at 1st April, 2020.

Accounting for ESOPs

3. (a) On 1st April, 2020, XYZ Ltd., offered 150 shares to each of its 750 employees at ₹ 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in period on transfer for three years from the

6

INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

grant date. The market price of shares of the company on the grant date is ₹ 72 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 67 per share on the grant date. On 31st March, 2021, 600 employees accepted the offer and paid ₹ 60 per share purchased. Face value of each share is ₹ 10. You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

- (b) Define the following terms:
- (i) Vesting
 - (ii) Exercise Period
 - (iii) Grant date
 - (iv) Exercise Price

Buy Back of Securities

4. Rohan Ltd. furnishes the following information as at 31-03-2021.

	(in ₹)	(in ₹)
Share Capital:		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Shares of ₹ 100 each fully paid up	<u>10,00,000</u>	60,00,000
Reserves & Surplus:		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	<u>25,50,000</u>	43,50,000
12% Debentures		12,50,000
Current Liabilities and Provisions		5,50,000
Property, Plant and Equipment		1,00,75,000
Current Assets:		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	<u>15,75,000</u>	20,75,000

The shareholders adopted the following resolution on 31st March, 2021:

- (1) Buy back 25% of the paid-up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.
- (2) To finance the buy-back of shares, company:

PAPER – 5 : ADVANCED ACCOUNTING

7

- (a) Issues 3,000, 14% debentures of ₹ 100 each at a premium of 20%.
- (b) Issues 2,500, 10% preference shares of ₹ 100 each.
- (3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.
- (4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.
- (5) Later, the company issue three fully paid up equity shares of ₹ 20 each by way of bonus for every 15 equity shares held by the equity shareholders.

You are required to pass the necessary journal entries to record the above transactions.

Equity Shares with Differential Rights

5. "The rights of a shares of a particular class, once issued, can be varied or altered." Comment on this statement in line with the provisions of the Companies Act.

Amalgamation of Companies

6. Heera Ltd. and Rita Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of Heera Ltd. and Rita Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in HR Ltd.

Heera Ltd. and Rita Ltd. make available the following information as on 31st March, 2021 (the date of amalgamation):

	Heera Ltd. ₹	Rita Ltd. ₹
Property, plant and Equipment	7,20,000	10,80,000
Inventories	3,60,000	6,60,000
Trade receivables	4,80,000	7,80,000
Cash at Bank	3,00,000	-
Share Capital	6,00,000	8,40,000
Reserves	10,20,000	6,00,000
Bank Overdraft	-	5,40,000
Trade payables	2,40,000	5,40,000

The consideration was to be based on the net assets of the companies as shown above but subject to an additional payment to Heera Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2021. The weights for this purpose for the years 2018-19, 2019-20 and 2020-21 were agreed as 1, 2 and 3 respectively.

The profit had been:

2018-19 ₹ 3,00,000; 2019-20 ₹ 5,25,000 and 2020-21 ₹ 6,30,000.

8

INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

The shares of HR Ltd. were to be issued to Heera Ltd. and Rita Ltd. at a premium and in proportion to the agreed net assets value of these companies.

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

You are required to calculate the number of shares issued to Heera Ltd. and Rita Ltd. and prepare necessary journal entries in the books of HR Ltd.

Internal Reconstruction of a Company

7. Shine Ltd. provides the following information as on 31st March, 2021:

(₹ in '000)

	Amount
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Property, Plant and Equipment	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account (Dr. balance)	2,100

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2021.

- (i) All the existing equity shares are reduced to ₹ 4 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.
- (iv) Investments are to be brought to their market value.
- (v) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
- (vi) The balance of Profit and Loss Account to be written off and balance of Current Assets left after settlement of taxation liability are revalued at ₹ 1,57,50,000.
- (vii) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

PAPER – 5 : ADVANCED ACCOUNTING

9

(viii) Property, plant and equipment to be written down to 80%.

You are required to give journal entries for the above transactions and prepare capital reduction account.

Liquidation of Company

8. The position of Neha Ltd. on its liquidation is as under:

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

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

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

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

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

Banking Companies

9. From the following information of Sun Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2021 after providing 35% of the profits towards provision for taxation and transferring 25% of the profit to Statutory Reserves:

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowance	50
Interest on Balance with RBI	30	Advertisement	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10

10

INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

Loss on exchange transactions	10	Postage, courier & telephones		16
Interest paid on Fixed Deposits	25			

Other Information:

	₹ in lakhs	
	Earned	Collected
Interest on NPA is as follows:		
Cash Credit	164	80
Term Loans	90	20
Overdraft	150	50
Classification of Non-performing Advances:		
Standard		60
Sub-standard-fully secured		22
Doubtful assets-fully unsecured		40
Doubtful assets covered fully by security:		
Less than 1 year		6
More than 1 year upto 3 years		3
More than 3 years		2
Loss Assets		38

NBFCs

10. (a) Gaur Finance Ltd. is a non-banking finance company. It provides the following information:

	₹ in crores
Leased out assets	600
Investment:	
In shares of subsidiaries and group companies	150
In debentures of subsidiaries and group Companies	50
Cash and bank balances	200
Deferred expenditure	100
Paid-up equity capital	100
Free reserves	400

PAPER – 5 : ADVANCED ACCOUNTING

11

Loans	400
Deposits	400

You are required to compute 'Net owned Fund' of Gaur Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

- (b) Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2020:

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(₹ In crore)	(₹ In crore)
LEDs	Up to 12 Months	500.00	18,000
Air purifiers	For 24 Months	100.00	2,000
R.O.	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Microwaves	For 60 Months	10.00	150

You are required to calculate the amount of provision to be made.

Consolidated Financial Statements

11. On 31st March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for ₹ 12,00,000. The position of Q Ltd. on that date was as under:

	₹
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of ₹ 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 2021:

	P Ltd. ₹	Q Ltd. ₹
Equity shares of ₹ 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	—

Pre-incorporation profits	–	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	–
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of ₹ 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 2021 (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account in each of the following cases:

- Before issue of bonus shares.
- Immediately after issue of bonus shares.

AS 4 Contingencies and Events occurring after the Balance Sheet Date

- XYZ Ltd. operates its business into various segments. Its financial year ended on 31st March, 2020 and the financial statements were approved by their approving authority on 15th June, 2020. The following material events took place:
 - A major property was sold (it was included in the balance sheet at ₹ 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2021 at a price of ₹ 26,50,000.
 - On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of ₹ 10 million would be fully covered by the insurance company.
 - A claim for damage amounting to ₹ 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of XYZ Ltd. for the year ended 31st March, 2020.

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

- (a) There was a major theft of stores valued at ₹ 10 lakhs in the preceding year which was detected only during current financial year (2020-2021). How will you deal with this information in preparing the financial statements of R Ltd. for the year ended 31st March, 2021.

PAPER – 5 : ADVANCED ACCOUNTING

13

- (b) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organisation. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization. Explain whether this will constitute a change in accounting policy or not as per AS 5.

AS 7 Construction Contracts

14. (a) In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably only when certain conditions prescribed under AS 7 are satisfied. You are required to describe these conditions mentioned in the standard.
- (b) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional ₹ 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily. Is X correct in his proposal? Discuss.

AS 9 Revenue Recognition

15. (a) How will you recognize revenue in the following cases:
1. Installation Fees;
 2. Advertising and insurance agency commissions;
 3. Subscriptions for publications.
- (b) Shipra Ltd., has been successful jewellers for the past 100 years and sales are against cash only (returns are negligible). The company also diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales is that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy, with reference to AS 9.

AS 17 Segment Reporting

16. (a) Company A is engaged in the manufacture of chemicals. The company manufactures five types of chemicals that have different applications. Can this company include more than one type of chemical in a single business segment? Comment.
- (b) Is an enterprise required to disclose changes in the basis of allocation of revenue and expenses to segments? Explain.

AS 18 Related Party Transactions

17. (a) Omega Bank Limited holds 25 per cent to the voting power of B Limited. Omega Bank Limited also provides finance by way of a loan to B Limited at market rates of interest, on account of which, Omega Bank Limited would have the power to nominate

14 INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

one person to the board of directors of B Limited. Any major transactions proposed to be entered into by B Limited would need the consent of Omega Bank Limited. Would Omega Bank Limited be considered as related party for B Ltd. (reporting enterprise)?

- (b) A Limited has two Associates, B Limited and C Limited, and owns 25 per cent of the voting power of B Limited and 30 per cent of the voting power of C Limited. Would B Limited be considered a related party for the purpose of financial statements of C Limited?

AS 20 Earnings Per Share

18. (a) AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB Limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct as per provisions of AS 20?

AS 22 Accounting for Taxes on Income

- (b) Can an enterprise offset deferred tax assets and deferred tax liabilities? If yes, prescribe the conditions required for such offset as per provisions of AS 22.

AS 24 Discontinuing Operations

19. (a) What are discontinuing operations as per AS 24? Should an enterprise include prescribed information relating to a discontinuing operation in its financial statements?

AS 26 Intangible Assets

- (b) A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2021. This asset was acquired for ₹ 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

AS 29 Provisions, Contingent Liabilities and Contingent Assets

20. (a) A company, incorporated as NPO under the Companies Act, is having main objective to promote the trade by organizing trade fairs / exhibitions. While organizing the trade fair and exhibitions, it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized

PAPER – 5 : ADVANCED ACCOUNTING

15

by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The accounting treatment and disclosure was made by the company in its financial statements as: (i) 5% contingency charges are treated as income and matching provision for the same is also being made in accounts and (ii) suitable disclosure to this effect is also made in the notes forming part of accounts.

You are required to comment whether creation of provision for contingencies under the facts and circumstances of the case is required in line with AS 29.

- (b) An oil company has been contaminating land for several years. It does not clean up because there is no legislation requiring cleaning up. On 31st March 2021, it is virtually certain that a law requiring a clean-up of land already contaminated will be enacted shortly after the year end. Is provisioning presently necessary considering the circumstances in line with provisions of AS 29?

SUGGESTED ANSWERS

1. (a)

Books of P & Q Co.

Realization Account

	Particulars		₹		Particulars		₹
To	Debtors	25,000		By	Creditors		20,000
To	Stock	35,000		By	Bank overdraft		5,000
To	Furniture	40,000		By	Bank:		
To	Machinery	<u>60,000</u>	1,60,000		Investment	25,000	
To	Bank:				Furniture	30,000	
	Creditors	20,000			Machinery	50,000	
	Bank overdraft	5,000			Debtors (90%)	22,500	
	Outstanding bill	<u>2,000</u>	27,000		Stock	20,125	
To	Profit transferred to:				Bad debts Recovered	<u>1,245</u>	1,48,870

P's capital	1,310		By	P's capital	15,750
Q's capital	1,310	2,620		(stock taken over)	
		1,89,620			1,89,620

Partners' Capital Accounts

		P	Q			P	Q
To	P's current Account	16,940		By	Balance b/d	1,00,000	50,000
To	Bank			By	Q's current Account		18,810
		83,060	68,810			1,00,000	68,810
		1,00,000	68,810			1,00,000	68,810

Bank Account

To	Balance b/d	₹ 30,000	By	Realization	₹ 27,000
To	Realization	1,48,870	By	P's capital	83,060
			By	Q's capital	68,810
		1,78,870			1,78,870

Working Note:

Partners' Current Accounts

		P	Q			P	Q
To	Balance b/d	10,000		By	Balance b/d		10,000
To	Realization	15,750		By	Reserves	7,500	7,500
To	Q's capital		18,810	By	Realization (profit)	1,310	1,310
				By	P's Capital	16,940	
		25,750	18,810			25,750	18,810

(b)

Key Elements	Partnerships	LLPs
Applicable Law	Indian Partnership Act 1932	The Limited Liability Partnerships Act, 2008
Perpetual Succession	Partnerships do not have perpetual succession	It has perpetual succession and individual partners may come and go

PAPER – 5 : ADVANCED ACCOUNTING

17

Number of Partners	Minimum 2 and Maximum 20 (subject to 10 for banks)	Minimum 2 but no maximum limit
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
Liability of Partners/ Members	Unlimited: Partners are severally and jointly liable for actions of other partners and the firm and their liability extends to personal assets	Limited to the extent of their contribution towards LLP except in case of intentional fraud or wrongful act of omission or commission by a partner.
Principal-Agent Relationship	Partners are the agents of the firm and of each other	Partners are agents of the firm only and not of other partners

2.

M/s R, S and T

Profit and Loss Account for the year ending on 31st March, 2020

	₹		₹
To Depreciation on Machinery	6,000	By Trading Profit	50,000
To Depreciation on furniture	500	By Interest on Investment	5,000
To Interest on S's loan	900		
To Net Profit to :			
R's Capital A/c	23,800		
S's Capital A/c	11,900		
T's Capital A/c	<u>11,900</u>		
	55,000		55,000

Balance Sheet of the Karma Pvt. Ltd. as at 1st April, 2020

		Notes No.	₹
I	Equity and Liabilities		
	Shareholders' funds		
	Share capital		1,41,600
	Current liabilities		
	Short term borrowings	1	15,900
	Trade payables		<u>20,000</u>
	Total		<u>1,77,500</u>

II	Assets		
	Non-current assets		
	Property, plant & Equipment (PPE)	2	63,500
	Non-current investments		50,000
	Current assets		
	Inventories		15,000
	Trade receivables		30,000
	Cash and cash equivalents		<u>19,000</u>
	Total		<u>1,77,500</u>

Notes to Accounts

		₹
1. Short term borrowings		
Loan from S		15,900
2. PPE		
Machinery	54,000	
Furniture	<u>9,500</u>	63,500

Working Notes:

1. Calculation of goodwill

	2014-15 ₹	2015-16 ₹	2016-17 ₹	2017-18 ₹	2018-19 ₹
Profits/(Loss)	25,000	12,500	(2,500)	35,000	30,000
Adjustment for extraneous profit of 2014-15 and abnormal loss of 2016-17	(40,000)	-	20,000	—	—
	(15,000)	12,500	17,500	35,000	30,000
Add: Salary of R (750 x12)	9,000	9,000	9,000	9,000	9,000
	(6,000)	21,500	26,500	44,000	39,000
Less: Interest on non-trading investment	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
	(11,000)	16,500	21,500	39,000	34,000
Total Profit from 2015-16 to 2018-19					1,11,000
Less: Loss for 2014-15					(11,000)
					<u>1,00,000</u>

PAPER – 5 : ADVANCED ACCOUNTING

19

Average Profit					20,000
Goodwill equal to 3 years' purchase					60,000
Contribution from T for 1/4 share					15,000

2. Calculation of sacrificing ratio of Partners R and S on admission of T

	Old share	New share	Sacrificing share	Gaining share
R	3/5	1/2	$\frac{3}{5} - \frac{1}{2} = \frac{6-5}{10} = \frac{1}{10}$	
S	2/5	1/4	$\frac{2}{5} - \frac{1}{4} = \frac{8-5}{20} = \frac{3}{20}$	
T		1/4		1/4

3. Goodwill adjustment entry through Partners' capital accounts (in their sacrificing ratio of 2:3)

	₹	₹
T's capital A/c	Dr.	15,000
To R's capital A/c		6,000
To S's capital A/c		9,000
(T's share in goodwill adjusted through R and S)		

4. Partners' Capital Accounts

	R ₹	S ₹	T ₹		R ₹	S ₹	T ₹
To Drawings (1,000 x 12)	12,000	12,000	12,000	By Balance b/d	50,000	30,000	—
To R			6,000	By General Reserve	12,000	8,000	—
To S			9,000	By T	6,000	9,000	—
To Balance c/d	79,800	46,900	14,900	By Bank (15,000 + 15,000)	—	—	30,000
				By Profit & Loss A/c	23,800	11,900	11,900
	91,800	58,900	41,900		91,800	58,900	41,900

5. **Balance Sheet of the firm as on 31st March, 2020**

Equity and Liabilities	₹	₹	Assets	₹	₹
R's Capital	79,800		Machinery	60,000	
S's Capital	46,900		Less: Depreciation (6,000)		54,000
T's Capital	<u>14,900</u>	1,41,600	Furniture	10,000	
			Less: Depreciation (500)		9,500
S's Loan	15,000		Investments		50,000
Add: Interest due	<u>900</u>	15,900	Stock-in-trade		15,000
Creditors		20,000	Debtors		30,000
			Cash (W.N.6)		19,000
		<u>1,77,500</u>			<u>1,77,500</u>

6. **Cash balance as on 31.3.2020**

	₹	₹
Cash trading profit		50,000
Add: Investment Interest		5,000
Add: Decrease in Stock Balance		<u>5,000</u>
		60,000
Less: Increase in Debtors	9,000	
Less: Decrease in Creditors	<u>20,000</u>	<u>(29,000)</u>
		31,000
Add: Opening cash balance	5,000	
Add: Cash brought in by T	<u>30,000</u>	<u>35,000</u>
		66,000
Less: Drawings (12,000 +12,000 +12,000)	36,000	
Less: Additions to Machine (60,000 - 54,000)	6,000	
Furniture (10,000 - 5,000)	<u>5,000</u>	<u>(47,000)</u>
Closing cash balance		<u>19,000</u>

7. **Distribution of shares – Conversion into Company**

	₹
Capital:	
R	79,800
S	46,900
T	<u>14,900</u>

PAPER – 5 : ADVANCED ACCOUNTING

21

Share Capital		1,41,600
Distribution of shares:	R (1/2)	70,800
	S (1/4)	35,400
	T (1/4)	35,400

R and S should withdraw capital of ₹ 9,000 (₹ 79,800 – ₹ 70,800) and ₹ 11,500 (₹ 46,900 – ₹ 35,400) respectively and T should subscribe shares of ₹ 20,500 (₹ 35,400 – ₹ 14,900).

3. (a) Fair value of an option = ₹ 67 – ₹ 60 = ₹ 7

Number of shares issued = 600 employees x 150 shares/employee = 90,000 shares

Fair value of ESOP = 90,000 shares x ₹ 7 = ₹ 6,30,000

Vesting period = 1 year

Expenses recognized in 2020-21 = ₹ 6,30,000

Date	Particulars	₹	₹
31.03.2021	Bank (90,000 shares x ₹ 60) Dr.	54,00,000	
	Employees stock compensation expense A/c Dr.	6,30,000	
	To Share Capital (90,000 shares x ₹ 10)		9,00,000
	To Securities Premium (90,000 shares x ₹ 57)		51,30,000
	(Being option accepted by 600 employees & payment made @ ₹ 60 per share)		
	Profit & Loss A/c Dr.	6,30,000	
	To Employees stock compensation expense A/c		6,30,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c)		

- (b) (i) **Vesting:** It means the process by which the employee is given the right to apply for the shares of the company against the option granted to him under the employees' stock option plan.
- (ii) **Exercise Period:** It is the time period after vesting within which the employee should exercise his right to apply for shares against the option vested in him in pursuance of the employees' stock option plan.

(iii) **Grant Date:** It is the date at which the enterprise and its employees agree to the terms of an employee share-based payment plan. At grant date, the enterprise confers on the employees the right to cash or shares of the enterprise, provided the specified vesting conditions, if any, are met.

(iv) **Exercise Price:** It is the price payable by the employee for exercising the option granted to him in pursuance of employees' stock option scheme.

4.

In the books of Rohan Limited**Journal Entries**

	Particulars	Dr. ₹	Cr. ₹
1.	Bank A/c Dr. To 14 % Debenture A/c To Securities Premium A/c (Being 14 % debentures issued to finance buy back)	3,60,000	3,00,000 60,000
2.	Bank A/c Dr. To 10% preference share capital A/c (Being 10% preference share issued to finance buy back)	2,50,000	2,50,000
3.	Bank A/c Dr. To Investment A/c To Profit on sale of investment (Being investment sold on profit)	1,50,000	1,00,000 50,000
4.	Equity share capital A/c (62,500 x ₹20) Dr. Premium on buyback or Securities premium A/c Dr. (62,500 x ₹16) To Equity shares buy back A/c (62,500 x ₹36) (Being the amount due to equity shareholders on buy back)	12,50,000 10,00,000	22,50,000
5.	Equity shares buy back A/c Dr. To Bank A/c (Being the payment made on account of buy back of 62,500 Equity Shares as per the Companies Act)	22,50,000	22,50,000
6.	Revenue reserve Dr. Securities premium Dr. Profit and Loss A/c Dr. To Capital redemption reserve A/c	3,00,000 2,60,000 4,40,000	10,00,000

PAPER – 5 : ADVANCED ACCOUNTING

23

	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law) [12,50,000 less 2,50,000]		
7.	Capital redemption reserve A/c Dr. To Bonus shares A/c (Being the utilization of capital redemption reserve to issue 37,500 bonus shares)	7,50,000	7,50,000
8.	Bonus shares A/c Dr. To Equity share capital A/c (Being issue of 3 bonus equity share for every 15 equity shares held)	7,50,000	7,50,000

5. The rights of shares of a particular class, once issued, can be varied or altered:
- If provision with respect to such variation is contained in the memorandum or articles of the company; or
 - In the absence of any such provision in the memorandum or articles, if such variation is not prohibited by the terms of issue of the shares of that class.

However, it would require consent in writing of the holders of not less than three-fourths of the issued shares of that class or by means of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Hence, if equity shareholders series A require a change in their right, of a particular nature, either a special resolution of a specially convened meeting of this class of shareholders will suffice, or otherwise more than 75% shareholders can give their consent in writing. It must be understood that a company having equity shares with voting rights cannot convert them into equity shares with differential voting rights, or vice-versa. However, the variation in their rights should not affect the rights of any other class, say Equity shares 'B' class or Preference shares. In such situation, if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of the Companies Act section shall apply to such variation.

6. Calculation of number of shares issued to Heera Ltd. and Rita Ltd.

Amount of Share Capital as per balance sheet	₹
Heera Ltd.	6,00,000
Rita Ltd.	<u>8,40,000</u>
	<u>14,40,000</u>
<u>Share of Heera Ltd.</u> = ₹ 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]	

	= ₹ 8,64,000 or 86,400 shares
Securities premium =	₹ 21,60,000 – ₹ 8,64,000 = ₹ 12,96,000
Premium per share =	₹ 12,96,000 / ₹ 86,400 = ₹ 15
Issued 86,400 shares @ ₹ 10 each at a premium of ₹ 15 per share	
<u>Share of Rita Ltd.</u> =	₹ 14,40,000 x [14,40,000 / (21,60,000 + 14,40,000)]
	= ₹ 5,76,000 or 57,600 shares
Securities premium =	₹ 14,40,000 – ₹ 5,76,000 = ₹ 8,64,000
Premium per share =	₹ 8,64,000 / ₹ 57,600 = ₹ 15
Issued 57,600 shares @ ₹ 10 each at a premium of ₹ 15 per share	

Journal Entries in the books of HR Ltd.

		Dr.	Cr.
Particulars		Amount (₹)	Amount (₹)
Business purchase account	Dr.	36,00,000	
To Liquidator of Heera Ltd. account			21,60,000
To Liquidator of Rita Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of Heera Ltd. and Rita Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of Heera Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Rita Ltd. taken over)			

PAPER – 5 : ADVANCED ACCOUNTING

25

Liquidator of Heera Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x ₹ 10)			8,64,000
To Securities premium (86,400 x ₹ 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Rita Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x ₹ 10)			5,76,000
To Securities premium (57,600 x ₹ 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account (72,000 x ₹10)			7,20,000
To Securities premium (72,000 x ₹ 15)			10,80,000
(Equity share capital issued to raise working capital)			

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

Particulars	Amount ₹	Weight	Weighted amount ₹
2018-19	3,00,000	1	3,00,000
2019-20	5,25,000	2	10,50,000
2020-21	<u>6,30,000</u>	3	<u>18,90,000</u>
Total (a+b+c)	<u>14,55,000</u>	6	<u>32,40,000</u>
weighted Average = [Total weighted amount/Total of weight] [₹ 32,40,000/6]			
Goodwill			5,40,000

2. Calculation of Net assets

	Heera Ltd. ₹	Rita Ltd. ₹
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000

26

INTERMEDIATE (NEW) EXAMINATION: NOVEMBER 2021

Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	<u>2,40,000</u>	<u>5,40,000</u>
Net assets or Purchase consideration	<u>21,60,000</u>	<u>14,40,000</u>

7.

Journal Entries in the books of Shine Ltd.

		₹ '000	₹ '000
(i)	Equity share capital (₹ 10) A/c Dr. To Equity Share Capital (₹ 4) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹ 10 each into ₹ 4 each as per reconstruction scheme)	35,000	14,000 21,000
(ii)	8% Cumulative Preference Share capital (₹ 100) A/c Dr. To 8% Cumulative Preference Share Capital (₹ 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)	17,500	10,500 7,000
(iii)	6% Debentures (₹ 100) A/c Dr. To 9% Debentures (₹ 80) A/c To Capital Reduction A/c (Being 9% debentures of ₹ 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)	14,000	11,200 2,800
(iv)	Sundry Creditors A/c Dr. To Equity Share Capital (₹ 4) A/c To Capital Reduction A/c (Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹ 4 each in full settlement of his dues as per reconstruction scheme)	7,000	3,500 3,500
(v)	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	350 175	525

PAPER – 5 : ADVANCED ACCOUNTING

27

(vi)	Liability for Taxation A/c To Current Assets (Bank A/c) (Being the payment of tax liability)	Dr.	525	525
(vii)	Capital Reduction A/c To P & L A/c To PPE A/c To Current Assets A/c To Investments A/c To Capital Reserve A/c (Bal. fig.) (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)	Dr.	34,125	2,100 8,750 18,725 175 4,375

Capital Reduction Account

To Liability for taxation A/c	175	By Equity share capital	21,000
To P & L A/c	2,100	By 8% Cumulative preferences	7,000
To Fixed Assets	8,750	Share capital	
To Current assets	18,725	By 6% Debentures	2,800
To Investment	175	By Sundry creditors	3,500
To Capital Reserve (Bal. fig.)	<u>4,375</u>		
	34,300		<u>34,300</u>

8.

Liquidator's Final Statement of Account

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

Working Notes:

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

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

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

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = ₹ 19,600 \times \frac{100}{100 - 2}$$

$$= \frac{₹ 19,600 \times 100}{98} = ₹ 20,000$$

- (iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000
 (iv) Amount of Calls to be made from equity shareholders (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share
 (v) Commission on Call = ₹ 20,000 × 2/100 = ₹ 400

9.

Sun Bank Limited**Profit and Loss Account****For the year ended 31st March, 2021**

₹ in lakhs

Particulars	Schedule	Year ended 31-3-2021
I Income		
Interest earned	13	766
Other income	14	50
		<u>816</u>
II Expenditure		
Interest expended	15	54
Operating expenses	16	468
Provisions and Contingencies (Refer W.N.)		158.96
		<u>680.96</u>
III Profit/Loss		
Net Profit/(Loss) for the year		135.04
Net Profit/(Loss) brought forward		Nil
		<u>135.04</u>

PAPER – 5 : ADVANCED ACCOUNTING

29

IV Appropriations:		
Transfer to Statutory reserve (25% of the profits)		33.76
Balance carried to the balance sheet		<u>101.28</u>
Total		<u>135.04</u>

Schedule 13 - Interest Earned

		Year ended 31-3-2021 (₹ in lakhs)	
I	Interest/discount on advances/bills		
	Interest on cash credit (364-84)	280	
	Interest on overdraft (150-100)	50	
	Interest on term loans (308-70)	238	568
II	Income on investments		168
III	Interest on Balance with RBI		30
			<u>766</u>

Interest on NPA is recognized on cash basis, hence difference of accrued interest not received have been reduced from the total accrued interest.

Schedule 14 - Other Income

		Year ended 31-3-2021 (₹ in lakhs)	
I	Commission, Exchange and Brokerage:		
	Commission on remittances and transfer	15	
	Commission on letter of credit	24	
	Commission on Government business	<u>16</u>	55
II	Profit on sale of Land and Building		5
III	Loss on Exchange Transactions		<u>(10)</u>
			<u>50</u>

Schedule 15 - Interest Expended

		Year ended 31-3-2021 (₹ in lakhs)	
I	Interest on Deposits		
	Fixed deposits	25	
	Recurring deposits	17	
	Saving bank deposits	<u>12</u>	54

Schedule 16 - Operating Expenses

		Year Ended 31-3-2021 (₹ in lakhs)	
I	Payment to and provision for employees		
	Salaries, allowances and bonus	248	
	Provident Fund Contribution	<u>56</u>	304
II	Printing and Stationery		28
III	Advertisement and publicity		36
IV	Directors' fees, allowances and expenses		50
V	Auditors' fees and expenses		24
VI	Postage, telegrams, telephones etc.		16
VII	Repairs and maintenance		10
			<u>468</u>

Working Note:

Provisions and contingencies		(₹ in lakhs)	
Provision for Advances:			
Standard	60 × 0.40%		0.24
Sub-standard	22 × 15%		3.3
Doubtful not covered by security	40 × 100%		40
Doubtful covered by security:			
Less than 1 year	6 × 25%	1.5	
More than 1 year but less than 3 years	3 × 40%	1.2	
More than 3 years	2 × 100%	<u>2.0</u>	4.7
Loss Assets	(38 × 100%)		38
			<u>86.24</u>
Provision for tax	35% of (Total Income – Total Expenditure)		
	35% of [816 - (54+468+86.24)]		
	35% of [816 - 608.24]		
	35% of 207.76		72.72
			<u>158.96</u>

10. (a) Statement showing computation of 'Net Owned Fund'

		₹ in crores
Paid up Equity Capital		100
Free Reserves		<u>400</u>
		500
Less: Deferred expenditure		<u>(100)</u>
	A	<u>400</u>
Investments		
In shares of subsidiaries and group companies		150
In debentures of subsidiaries and group companies		<u>50</u>
	B	<u>200</u>
10% of A		40
Excess of Investment over 10% of A (200-40)	C	160
Net Owned Fund [(A) - (C)] (400-160)		240

(b) On the basis of the information, in respect of hire purchase and leased assets, additional provision shall be made as under:

(₹ in crore)		
(a) Where hire charges are overdue upto 12 months	Nil	-
(b) Where hire charges are overdue for more than 12 months but upto 24 months	10% of the net book value 10% x 2,000	200
(c) Where hire charges are overdue for more than 24 months but upto 36 months	40 percent of the net book value 40% x 1,250	500
(d) Where hire charges or lease rentals are overdue for more than 36 months but upto 48 months	70 percent of the net book value 70% x 600	420
(e) Where hire charges or lease rentals are overdue for more than 48 months	100% of net book value (100% x 150)	150
	Total	1,270

11. Shareholding pattern

Particulars	Number of Shares	% of holding
a. P Ltd.		
(i) Purchased on 31.03.2015	1,05,000	
(ii) Bonus Issue (1,05,000/2)	<u>52,500</u>	
Total	<u>1,57,500</u>	70%
b. Minority Interest	67,500	30%

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

(a) Before issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Investment in Q Ltd.		12,00,000
	Less: Face value of investments	10,50,000	
	Capital profits (W.N.)	<u>63,000</u>	<u>(11,13,000)</u>
	Cost of control		<u>87,000</u>
(ii)	Minority Interest		₹
	Share Capital		4,50,000
	Capital profits (W.N.)		27,000
	Revenue profits (W.N.)		<u>6,79,500</u>
			<u>11,56,500</u>
(iii)	Consolidated profit and loss account – P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>15,85,500</u>
			<u>31,60,500</u>

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	₹	₹
	Face value of investments (₹ 10,50,000 + ₹ 5,25,000)	15,75,000	
	Capital Profits (W.N.)	<u>63,000</u>	16,38,000
	Less: Investment in Q Ltd.		<u>(12,00,000)</u>
	Capital reserve		<u>4,38,000</u>

PAPER – 5 : ADVANCED ACCOUNTING

33

(ii)	Minority Interest		₹
	Share Capital (₹ 4,50,000 + ₹ 2,25,000)		6,75,000
	Capital Profits (W.N.)		27,000
	Revenue Profits (W.N.)		<u>4,54,500</u>
			<u>11,56,500</u>
(iii)	Consolidated Profit and Loss Account – P Ltd.		₹
	Balance		15,75,000
	Add: Share in revenue profits of Q Ltd. (W.N.)		<u>10,60,500</u>
			<u>26,35,500</u>

Working Note:**Analysis of Profits of Q Ltd.**

	Capital Profits (Before and after issue of bonus shares) ₹	Revenue Profits	
		Before Bonus Issue ₹	After Bonus Issue ₹
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	<u>60,000</u>		
	<u>90,000</u>		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			<u>(7,50,000)</u>
			11,55,000

Profit for period of 1st April, 2015 to 31 st March, 2021 (₹ 4,20,000 – ₹ 60,000)		<u>3,60,000</u>	<u>3,60,000</u>
		<u>22,65,000</u>	<u>15,15,000</u>
P Ltd.'s share (70%)	63,000	15,85,500	10,60,500
Minority's share (30%)	27,000	6,79,500	4,54,500

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

12. Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property ₹ 1,50,000 would be considered.
(b)	The event is a non-adjusting event since it occurred after the year-end and does not relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.
(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, ₹ 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.

13. (a) Due to major theft of stores in the preceding year (2019-2020) which was detected only during the current financial year (2020-2021), there was overstatement of closing inventory of stores in the preceding year. This must have also resulted in the overstatement of profits of previous year, brought forward to the current year. The adjustments are required to be made in the current year as 'Prior Period Items' as per AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. Accordingly, the adjustments relating to both opening inventory of the current year and profit brought forward from the previous year should be separately disclosed in the statement of profit and loss together with their nature and amount in a manner that their impact on the current profit or loss can be perceived. Alternatively, it may be assumed that in the preceding year, the value of inventory of stores as found out by physical verification of inventories was considered in the preparation of financial statements of the preceding year. In such a case, only the disclosure as to the theft and the resulting loss is required in the notes to the accounts for the current year i.e, year ended 31st March, 2021.
- (b) As per AS 5 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', 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. Accordingly, the adoption of a new accounting policy of paying pension to retired employees is a policy for events or transactions which did not occur previously. Hence, it will not be treated as a change in an accounting policy.

14. (a) In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
- (i) total contract revenue can be measured reliably;
 - (ii) it is probable that the economic benefits associated with the contract will flow to the enterprise;
 - (iii) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
 - (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.
- (b) According to AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.
15. (a) **Installation Fees:** In cases where installation fees are other than incidental to the sale of a product, they should be recognized as revenue only when the equipment is installed and accepted by the customer.

Advertising and insurance agency commissions: Revenue should be recognized when the service is completed. For advertising agencies, media commissions will normally be recognized when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency, as opposed to production commission, which will be recognized when the project is completed. Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

Subscription for publications: Revenue received or billed should be deferred and recognized either on a straight-line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription.

- (b) As per AS 9 "Revenue recognition", revenue recognition is mainly concerned with the timing of recognition of revenue in statement of profit and loss of an enterprise. The amount of revenue arising on a transaction is usually determined by the agreement between the parties involved in the transaction. When uncertainties exist regarding

the determination of the amount, or its associated costs, these uncertainties may influence the timing of revenue recognition.

Effect of Uncertainty- In the case of the jewellery business the company is selling for cash and returns are negligible. Hence, revenue can be recognized on sales. On the other hand, in Apparels Industry, the dealers have a right to return the unsold goods within one month of the end of the season. In this case, the company is bearing the risk of sales return and therefore, the company should not recognize the revenue to the extent of 25% of its sales. The company may disclose suitable revenue recognition policy in its financial statements separately for both Jewellery and Apparels business.

16. (a) As per AS 17, "A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products of services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:
- (a) the nature of the products of services;
 - (b) the nature of the productions processes;
 - (c) the type of class of customers for the products or services;
 - (d) the methods use to distribute the products or provide the services; and
 - (e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities."

As per provisions of the standard, a single business segment does not include products and services with significantly differing risks and returns. Products and services included in a single business segment may be dissimilar with respect to one or several factors listed above but are expected to be similar with respect to majority of the factors.

In the present case, the Company should consider whether the chemicals with different applications, have similar risks end returns. For this purpose, the Company should ascertain whether one or more types of chemicals are related keeping in view the relevant factors including those given in the definition of business segment. Chemicals having different applications can be included in a single business segment if major of the relevant factors including those listed above are similar. This would ensure that the chemicals having significantly different risks and returns are not included in a single business segment.

- (b) As per AS 17, "Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed. Such disclosure should include a description of the nature of the change, and the financial effect of the change if it is reasonably determinable." It also states that "some changes in

accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the enterprise. To enable users to understand and impact of such changes, this Statement requires the disclosure of the nature of the change and the financial effect of the change, if reasonably determinable”.

In view of the above, a change in the basis of allocation revenue and expenses to segments is a change in the accounting policy adopted for segment reporting. Accordingly, if the change has a material financial effect on the segment information, a description of the nature of the change, and the financial effect of the change, if it is reasonably determinable, should be disclosed.

17. (a) Omega Bank Limited would be a related party of B Limited. As per AS 18 “associates and joint ventures of the reporting enterprise and the investing party of venture in respect of which the reporting enterprise is an associate or a joint venturer” are related party relationship. Further, an associate has been defined as “an enterprise in which an investing reporting party has significant influence and which is neither a subsidiary nor a joint venture of the party”. Significant influence has been defined to be “participation in the financial and /or operating policy decisions of an enterprise, but not control of those policies”. Further, it is given in the standard that significant influence may be gained by share ownership, agreement or statute. As regards share ownership, there is a presumption that ownership of 20 per cent or more of the voting power enables the enterprise to exercise significant influence, unless it could be clearly demonstrated otherwise. In the given example, Omega Bank Limited exercises significant influence over B Limited by virtue of ownership of 25 per cent of the voting power.

Omega Bank Limited is also a provider of finance for B Limited (as it has provided a loan to B Limited), and as per the standard, a provider of finance is deemed not to be a related party during its normal dealings with the enterprise by virtue only of those dealing. However, in this case, the exemption would not be available to Omega Bank Limited as the exercise of significant influence of Omega Bank Limited over B Limited has been demonstrated on account of ownership of more than 20 per cent of voting power. Accordingly, Omega Bank Limited would be construed to be a related party in the financial statements of B Limited and consequently, the latter would be required to disclose the transactions between the parties in its financial statements.

- (b) Both B Limited and C Limited are ‘associates’ of A Limited. Co-associates cannot be regarded as a related parties only by virtue of the relationship. AS 18 states that “enterprise that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise” are related parties. Further, it is given that “associates and joint ventures of the reporting enterprise and the investing party or venture in respect of which the reporting

enterprise is an associate or a joint venturer” are also related parties. As B Limited is not an associate of C Limited, nor is it being controlled, directly or indirectly, by C Limited or is not so controlling C Limited, it is not a related party of C Limited.

18. (a) The appropriation made to such a mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. AS 20 states that “For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period”. With an emphasis on the phrase attributable to equity shareholders, it may be construed that such amounts appropriated to mandatory reserves, though not available for distribution as dividend, are still attributable to equity shareholders. Accordingly, these amounts should be included in the computation of Basic EPS. In view of this, the treatment made by the company is not correct.

- (b) Yes. It can offset deferred tax assets and deferred tax liabilities.

As per AS 22, an enterprise should offset deferred tax assets and deferred tax liabilities if:

- (i) the enterprise has a legally enforceable right to set off assets against liabilities representing current tax; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

19. (a) A discontinuing operation is a component of an enterprise:

- a. That the enterprise, pursuant to a single plan, is:
 - (i) Disposing of substantially in its entirety, such as by selling the component in a single transaction or by demerger or spin-off of ownership of the component to the enterprise's shareholders or
 - (ii) Disposing of piecemeal, such as by selling off the component's assets and settling its liabilities individually or
 - (iii) Terminating through abandonment and
- b. That represents a separate major line of business or geographical area of operations.
- c. That can be distinguished operationally and for financial reporting purposes.

An enterprise should include prescribed information relating to a discontinuing operation in its financial statements, as per requirements of AS 24, beginning with the financial statements for the period in which the initial disclosure event occurs.

- (b) As per AS 26 'Intangible Assets', the depreciable amount of an intangible asset should be allocated on systematic basis over the best estimate of its useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Company has been following the policy of amortization of the intangible asset over a period of 15 years on straight line basis. The period of 15 years is more than the maximum period of 10 years specified as per AS 26. Accordingly, the company would be required to restate the carrying amount of intangible asset as on 01.04.2021 at ₹ 72 lakhs i.e. ₹ 120 lakhs less ₹ 48 lakhs $\left(\frac{₹ 120 \text{ Lakhs}}{10 \text{ years}} \times 4 \text{ years} = 48 \text{ Lakhs} \right)$.

The difference of ₹ 16 Lakhs (₹ 88 lakhs – ₹ 72 lakhs) will be adjusted against the opening balance of revenue reserve. The carrying amount of ₹ 72 lakhs will be amortized over remaining 6 years by amortizing ₹ 12 lakhs per year.

20. (a) As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", a provision should be recognized when (a) An enterprise has a present obligation as a result of a past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognized.

From the above, it is clear that for the contingencies considered by the company, neither a present obligation exists because of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognized for such contingencies under the facts and circumstances of the case.

- (b) As per AS 29 'Provisions, Contingent Liabilities and Contingent Assets', a past event will lead to present obligation when the enterprise has no realistic alternative to settle the obligation created by the past event. However, when environmental damage is caused there may be no obligation to remedy the consequences. The causing of the damage will become an obligating event when a new law requires the existing damage to be rectified. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted. In the given case it is virtually certain that law will be enacted requiring clean-up of a land already contaminated. Therefore, an oil company has to provide for such clean-up cost in the year in which the law is virtually certain to be enacted.