

PAPER – 5: ADVANCED ACCOUNTING

Question No.1 is compulsory.

*Candidates are also required to answer any **four** questions from the remaining **five** questions.*

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1

- (a) *Sapphire Limited earned Net profit of ₹ 39,00,000 and ₹ 59,40,000 for the years 2021-22 & 2022-23 respectively.*

The following information were given for 2022-2023:

- (i) *The company declared Rights issue of two new shares for each five outstanding shares.*
- (ii) *4,00,000 shares were outstanding prior to Rights issue.*
- (iii) *Rights issue price was ₹ 27.50 and the last date to exercise rights was 1st July, 2022.*
- (iv) *Fair value of one equity share immediately prior to exercise of rights on 1st July, 2022 was ₹ 143.*

You are required to Compute Basic Earnings Per Share as per AS-20:

- (i) *For the year 2021-22, and*
 - (ii) *For the year 2022-23*
- (b) *The accountant of Beryl Limited has asked you to identify the following items as – Change in Accounting Policies / Change in Accounting Estimates / Extraordinary Items / Prior period items / Ordinary Activity:*
- (i) *Non-provision for salary already due in earlier year.*
 - (ii) *Attachment of the property of the enterprise.*
 - (iii) *Introduction of new pension scheme for employees.*
 - (iv) *Change in Reserve for obsolete inventory.*
 - (v) *Settlement of litigation case.*
 - (vi) *Actual Bad debts exceeds the provision.*
 - (vii) *Legislative changes having long term retrospective application.*
 - (viii) *Capitalisation of working capital loan interest.*

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- (ix) Change from Cost Model to Revaluation Model for measurement of carrying amount of PPE.
- (x) Government sanctioned grant in current year for expenses incurred in previous accounting year.
- (c) The following particulars are stated in the Balance Sheet of Siddhi Limited as on 31st March, 2022:

Particulars	(₹ In lakhs)
Deferred Tax Liabilities (Cr.)	2.50
Deferred Tax Assets (Dr.)	1.35

The following transactions were reported during the year 2022-23:

	₹ in lakhs
(i) Depreciation as per accounting records	15.00
(ii) Depreciation as per income tax records	20.00
(iii) Interest paid to NBFC accounted in books on accrual basis but paid on 30.06.2023	6.00
(iv) Items disallowed for tax purposes in 2021-22 but allowed in 2022-23	1.05
(v) Donation to Private Trust	40.00
(vi) Tax rate	15%
(vii) There were no additions to fixed assets during the year.	

You are required to calculate the Deferred Tax Asset and Deferred Tax Liability as on 31-03-2023 as per AS-22.

- (d) Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	<u>1,100</u>	<u>200</u>	<u>3,400</u>
TOTAL	<u>4,500</u>	<u>14,000</u>	<u>44,500</u>

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer. **(5 Marks x 4 Parts = 20 Marks)**

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Answer

(a) Computation of Basic Earnings Per Share

	Year 2021-22 ₹	Year 2022-23 ₹
EPS for the year 2021-22 as originally reported Net profit of the year attributable to equity shareholders		
Weighted average number of equity shares outstanding during the year = (₹ 39,00,000 / 4,00,000 shares)	9.75	
EPS for the year 2021-22 restated for rights issue = [₹ 39,00,000 / (4,00,000 shares × 1.3*)]	7.5	
EPS for the year 2022-23 including effects of rights issue ₹ 59,40,000		
$\frac{(4,00,000 \times 1.3 \times 3/12) + (5,60,000 \times 9/12)}{5,50,000}$		10.8 (approx..)

*Refer working note 2.

Working Notes:

1. Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights} + \text{Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise} + \text{Number of shares issued in the exercise}} = \frac{(\text{₹ } 143 \times 4,00,000 \text{ shares}) + (\text{₹ } 27.5 \times 1,60,000 \text{ shares})}{4,00,000 \text{ shares} + 1,60,000 \text{ shares}} = \frac{6,16,00,000}{5,60,000 \text{ shares}} = \text{₹ } 110$$

2. Computation of adjustment factor

$$= \frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \frac{\text{₹ } 143}{\text{₹ } 110 \text{ (Refer Working Note 1)}} = \text{₹ } 1.3 \text{ (approx.)}$$

- (b) (i) Prior Period item
(ii) Attachment of property of enterprise is an extraordinary item.

- (iii) Introduction of new pension scheme for employees is not a change in accounting policy. It is an ordinary activity.
- (iv) Change in provision for obsolete inventory is a change in accounting estimate.
- (v) Litigation settlement is an ordinary activity but requires separate disclosure
- (vi) Change in estimate
- (vii) Ordinary activity requiring separate disclosure
- (viii) Error*
- (ix) Change in Accounting policy.
- (x) Ordinary activity requiring separate disclosure or extra ordinary item.

(c) Balances of Deferred tax assets and Deferred tax liability as on 31st March, 2023

	₹ (in lakhs)
Deferred tax liability (Cr.) (2.5 +.75)	3.25
Deferred tax asset (Dr.) (1.35 - .158*)	1.192

Working Note:

Impact of various items in terms of deferred tax liability / deferred tax asset

S. No.	Transactions	Nature of difference	Effect	Amount (₹)
(i), (ii)	Difference in depreciation	Responding timing difference	Creation of DTL	$(20 - 15) \times 15\% = .75$
(iii)	Interest to financial institutions	No timing difference	Not applicable	Not applicable
(iv)	Disallowances, as per IT Act, of earlier years	Timing difference	Reversal of DTA	$₹ 1.05 \text{ lakh} \times 15\% = ₹ .158^* \text{ lakh}$
(v)	Donation to private trusts	Permanent difference	Not applicable	Not applicable

*Alternatively, may be rounded off as ₹ .157 lakh or 0.1575.

- (d)** As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

* If it relates to the previous year then it can be considered as a prior period item.

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is ₹ 10,500 Lakhs ($₹ 14,000 \times 75\%$) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).

Question 2

Following is the Balance Sheet of Tourma Limited as at 31st March, 2023:

Particulars	Notes	₹ in lakhs
Equity and Liabilities		
1. Shareholders' funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	<u>0.42</u>
Total		<u>21.39</u>
Assets		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80

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2. Current Assets		
A. Inventory		5.12
B. Trade receivables		4.32
C. Cash and cash equivalents		<u>0.65</u>
<i>Total</i>		<u>21.39</u>

Notes to Accounts:

		₹ in lakhs
1	Share Capital	
	Equity share capital	
	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 100 each	<u>8.00</u>
		<u>24.00</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	<u>(9.10)</u>
		<u>(9.10)</u>
3	Long-term borrowings	
	3,200 10% Debentures	<u>3.20</u>
		<u>3.20</u>
4	Other current liabilities	
	Interest payable on debentures	<u>0.32</u>
		<u>0.32</u>
5	Short term provisions	
	Provision for taxation	<u>0.42</u>
		<u>0.42</u>
6	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	<u>2.80</u>
		<u>7.80</u>
7	Intangible Assets	
	Patents & Copyrights	<u>1.70</u>
		1.70
8	Non-current Investments	
	Investments (Market Value ₹ 1,10,000)	<u>1.80</u>
		1.80

As on 1st April, 2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

- (i) Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40 % of his holding, for the purpose of reissue to trade payables as necessary.
- (ii) Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.
- (iii) The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
- (iv) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
- (v) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) The shares surrendered and not re-issued shall be cancelled.
- (vii) The taxation liability is to be settled at 50,000.
- (viii) Investments value to be reduced to market price.
- (ix) Balance of profit and loss account is to be written off.
- (x) The value of inventories is to be increased by ₹ 32,000 and provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

- (i) Pass necessary journal entries in the books of account of Tourma Limited.
- (ii) Prepare Reconstruction Account, and
- (iii) Prepare Balance Sheet of the company after internal reconstruction. **(20 Marks)**

Answer

Journal Entries in the books of Tourma Ltd.

	Dr.	Cr.
	₹ In lakhs	₹ In lakhs
Equity Share Capital (₹ 100) A/c Dr.	16.00	
To Share Surrender A/c		6.40
To Equity Share Capital (₹ 10) A/c		9.60
(Subdivision of 16,000 equity shares of ₹ 100 each into 1,60,000 equity shares of ₹ 10 each and surrender of		

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64,000 of such subdivided shares as per capital reduction scheme)				
Preference Share Capital (₹ 100) A/c	Dr.	8.00		
To 12% Debentures A/c	Dr.		5.60	
To Reconstruction (₹ 100) A/c			2.40	
(12% Debenture issued to Preference Shareholders and 30% of the capital foregone by them)				
Bank A/c	Dr.	4.00		
To 12% Debentures (₹ 100) A/c			4.00	
(Being 12% debentures issued)				
Bank Overdraft A/c	Dr.	1.40		
To Bank A/c			1.26	
To Reconstruction A/c			0.14	
(Being bank overdraft amount paid)				
10% Debentures A/c	Dr.	3.20		
Interest payable A/c	Dr.	0.32		
To Debenture holders A/c			3.52	
(Being Interest payable on the 10% debentures credited to debenture holders A/c)				
10% Debentures A/c	Dr.	3.52		
To Furniture & fixtures A/c			2.80	
To Reconstruction A/c			0.72	
Trade payables A/c	Dr.	1.15		
To Reconstruction A/c			1.15	
(Transferred claims of the trade payables to reconstruction account, 70% of which is being clear reduction and equity shares are being issued in consideration of the balance)				
Share Surrender A/c		6.40		
To Equity Share Capital A/c			0.805	
To Reconstruction A/c			5.595	
(Issued equity shares to discharge the claims of the trade payables respectively as per scheme and the balance in share surrender account is being transferred to reconstruction account)				

Provision for Taxation A/c	Dr.	0.42	
Reconstruction A/c	Dr.	0.08	
To Liability for taxation A/c			0.50
(Being conversion of the provision for taxation into liability for taxation.)			
Liability for taxation A/c		0.50	
To Cash/Bank A/c			0.50
(Being taxation liability settled)			
Reconstruction A/c	Dr.	0.70	
To Investment A/c			0.70
(Being investments' value reduce to market price)			
Inventory A/c	Dr.	0.32	
To Reconstruction A/c	Dr.		0.104
To Provision for doubtful debts (4,32,000 x 5%)			0.216
(Being inventory revalued and provision for doubtful debts created)			
Reconstruction A/c	Dr.	9.329	
To Profit and Loss A/c			9.10
To Capital Reserve A/c			0.229
(Adjusted debit balance of profit and loss account against the reconstruction account and the balance in the latter is being transferred to capital reserve)			

Balance Sheet of Tourma Limited (and reduced) as at...

<i>Particulars</i>	<i>Note No.</i>	<i>₹ In lakhs</i>
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	10.405
(b) Reserves and Surplus	2	0.229
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	9.60
(3) Current Liabilities		
Total		20.234

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II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	4	5.00
(b) Intangible assets	5	1.70
(c) Non-current investments	6	1.10
(2) Current assets		
(a) Inventories	7	5.44
(b) Trade receivables	8	4.104
(c) Cash and cash equivalents (W.N)		2.89
Total		20.234

Notes to Accounts

		₹ In lakhs
1.	Share Capital <u>Equity Share Capital</u> Issued Capital: 10.405 Equity Shares of ₹ 10 each (9.6 + 0.805) (Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	10.405
2.	Reserve and Surplus Capital Reserve	<u>0.229</u>
3.	Long-term borrowings Unsecured Loans 12% Debentures (5.60 + 4)	<u>9.60</u>
4.	Property, plant and Equipment Plant & Machinery	<u>5.00</u>
5.	Intangible assets Patents & copyrights	<u>1.70</u>
6.	Non-Current Investments Investments	1.10
7.	Inventory	5.12
	Add: Appreciation under scheme of Reconstruction	<u>0.32</u>
		<u>5.44</u>

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8	Trade Receivables	4.32	
	Less: Provision for doubtful debts	<u>0.216</u>	4.104

Question 3

- (a) GB Limited acquired 80% of equity shares of TB Limited on 1st April, 2016 at a cost of ₹ 58,00,000 when TB Limited had an Equity share capital of ₹ 50,00,000 and Reserves and Surplus of ₹ 4,64,000.

The following information is provided:

Year	Profit /(Loss) of TB Limited (₹)
2016-17	(14,50,000)
2017-18	(23,20,000)
2018-19	(29,00,000)
2019-20	(6,96,000)
2020-21	1,90,000
2021-22	6,80,000
2022-23	12,70,000

You are required to calculate the minority interests and cost of control at the end of each year for the purpose of consolidation.

- (b) The Reserve Bank of India (RBI) has introduced a revised regulatory framework for Non-Banking Financial Companies (NBFCs), effective from October 01, 2022, named 'Scale Based Regulation' (SBR) to regulate the NBFCs based on their size, activity, complexity and interconnectedness within the financial sector. The regulatory structure for NBFCs shall comprise of four layers based on their size, activity, and perceived risks. Briefly explain the four layers. **(15 + 5 = 20 Marks)**

Answer

- (a)

Year	Profit / (Loss)	Minority Interest (20%)	Additional Consolidated P & L (Dr.) Cr.	Minority's Share of losses borne by GB Ltd.	Cost of Control
				₹ Balance	
At the time of acquisition in 2016		10,92,800 - (W.N.)	-		

2016-17	(14,50,000)	<u>(2,90,000)</u>	(11,60,000)			14,28,800 (W.N.)
Balance		8,02,800				
2017-18	(23,20,000)	<u>(4,64,000)</u>	(18,56,000)			14,28,800
Balance		3,38,800				
2018-19	(29,00,000)	<u>(5,80,000)</u>	(23,20,000)			14,28,800
		(2,41,200)				
	Loss of minority borne by Holding Co.	<u>2,41,200</u>	<u>(2,41,200)</u>	2,41,200	2,41,200	
Balance		Nil	<u>(25,61,200)</u>			
2019-20	(6,96,000)	(1,39,200)	(5,56,800)			14,28,800
	Loss of minority borne by Holding Co.	<u>1,39,200</u>	<u>(1,39,200)</u>	1,39,200	3,80,400	
Balance		Nil	(6,96,000)			
2020-21	1,90,000	38,000	1,52,000			14,28,800
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(38,000)	<u>38,000</u>	(38,000)	3,42,400	
Balance		Nil	1,90,000			
2021-22	6,80,000	1,36,000	5,44,000			
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	<u>(1,36,000)</u>	<u>1,36,000</u>	(1,36,000)	2,06,400	14,28,800
Balance		Nil	6,80,000			
2022-23	12,70,000	2,54,000	10,16,000	(2,06,400)	Nil	14,28,800
		<u>(2,06,400)</u>	<u>2,06,400</u>			
Balance		47,600	12,22,400			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2016

		Share of Holding Co.	Minority Interest
	100%	80%	20%
	(₹)	(₹)	(₹)
Share Capital	50,00,000	40,00,000	10,00,000
Reserve	4,64,000	<u>3,71,200</u>	<u>92,800</u>
		43,71,200	<u>10,92,800</u>
Less: Cost of investment		<u>(58,00,000)</u>	
Goodwill		14,28,800	

(b) Details of NBFCs populating the various layers is mentioned below:

Base Layer

The Base Layer shall comprise of (a) non-deposit taking NBFCs below the asset size of ₹ 1000 crore and (b) NBFCs undertaking the following activities- (i) NBFC-Peer to Peer Lending Platform (NBFC-P2P), (ii) NBFC-Account Aggregator (NBFC-AA), (iii) Non-Operative Financial Holding Company (NOFHC) and (iv) NBFCs not availing public funds and not having any customer interface.

Middle Layer

The Middle Layer shall consist of (a) all deposit taking NBFCs (NBFC-Ds), irrespective of asset size, (b) non-deposit taking NBFCs with asset size of ₹1000 crore and above and (c) NBFCs undertaking the following activities (i) Standalone Primary Dealers (SPDs), (ii) Infrastructure Debt Fund - Non-Banking Financial Companies (IDF-NBFCs), (iii) Core Investment Companies (CICs), (iv) Housing Finance Companies (HFCs) and (v) Infrastructure Finance Companies (NBFC-IFCs).

Upper Layer

The Upper Layer shall comprise of those NBFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Appendix to this circular. The top ten eligible NBFCs in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific NBFCs in the Upper Layer. Such NBFCs shall move to the Top Layer from the Upper Layer.

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Question 4

- (a) X, Y and Z are partners in a firm, sharing profit and losses in the ratio of 3:2:1 respectively. Due to extreme competition, it was decided to dissolve the partnership on 31st December, 2022 on which date the Balance sheet was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Machinery	3,08,000
X 2,26,200		Furniture and Fittings	51,600
Y 70,800		Investments	10,800
Z <u>63,000</u>	3,60,000	Stock	1,95,400
Current Accounts:		Debtors	1,12,800
X 52,800		Bank	59,400
Z <u>12,000</u>	64,800	Current Account -Y	36,000
Reserves	2,16,000		
Loan Account Z	30,000		
Creditors	1,03,200		
	<u>7,74,000</u>		<u>7,74,000</u>

The realisation of assets is spread over the next few months as follows:

2023		₹
February	Debtors	1,03,800
March	Machinery	2,79,000
April	Furniture etc.	36,000
May	Y agreed to take over Investments at	12,600
June	Stock	1,92,000

Other information:

- (i) Dissolution expenses, originally provided were ₹ 27,000, but actually amounted to ₹ 19,200 and were paid on 30th April.
- (ii) The creditors were to be settled for ₹ 1,00,800.
- (iii) The partners decided that after creditor settlement, all cash received should be distributed to partners at the end of each month in the most equitable manner.

You are required to prepare a statement of actual cash distribution as it is received following the "maximum lose method".

(b) Briefly explain the following terms in context to Limited Liability Partnership Act, 2008:

(i) Foreign Limited Liability Partnership

(ii) Business

(iii) Designated Partner

(iv) Resident in India for the purpose of Section 7 of LLP Act, 2008 (15 + 5 = 20 Marks)

Answer

(a) Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors ₹	Z's Loan ₹	X ₹	Y ₹	Z ₹
Feb: Balance due	1,03,200	30,000	3,87,000	1,06,800	1,11,000
Cash available	59,400				
Collection from debtors	<u>1,03,800</u>				
	1,63,200				
Less: prov for expenses	<u>27,000</u>				
	1,36,200				
Creditors & Loan paid (1,00,800 + 30,000)	<u>1,30,800</u>	<u>(30,000)</u>			
	2,400	-			
Discount written off	<u>(2,400)</u>				
Available for X, Y & Z	5,400	-			
Maximum possible loss (6,04,800-5,400) =	5,99,400				
In ratio of 3:2:1			(2,99,700)	(1,99,800)	(99,900)
			87,300	(93,000)	11,100
Adjustment for Y's deficiency in ratio of 2,26,200:63,000			(72,741)	93,000	(20,259)
			14,559	-	(9,159)
Adjustment for Z's deficiency			(9,159)	-	9,159
Cash paid to X			5,400		
Balance due			3,81,600	1,06,800	1,11,000
March					
Cash available ₹ 2,79,000					
Maximum possible loss ₹ 5,99,400 – ₹ 2,79,000 = ₹ 3,20,400 in ratio of 3:2:1			(1,60,200)	(1,06,800)	(53,400)
Cash paid			2,21,400	-	57,600

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Balance		1,60,200	1,06,800	53,400
April				
36,000 + 7,800 (saving in expenses) = 43,800				
Maximum possible loss				
₹ 3,20,400 - 43,800 = 2,76,600 in ratio of 3:2:1		(1,38,300)	(92,200)	(46,100)
Cash paid		21,900	14,600	7,300
Balance due		1,38,300	92,200	46,100
May				
Balance of capital account 2,76,600		1,38,300	92,200	46,100
less Investment given to Y <u>12,600</u>			12,600	
June <u>2,64,000</u>				
Balance of capital account 2,64,000		1,38,300	79,600	46,100
Amount realized <u>1,92,000</u>				
Maximum possible loss <u>72,000</u>		36,000	24,000	12,000
Amount paid		1,02,300	55,600	34,100

*Partners' capital balances are after adjusting reserves and current A/c balance.

Working Note:

Statement showing the cash available for distribution:

February ₹ 59,400 + 1,03,800 - 27,000 = ₹ 1,36,200

March ₹ 2,79,000

April ₹ 36,000 + 7,800 = 43,800

May Nil

June ₹ 1,92,000

- (b) (i) **"Foreign limited liability partnership"** means a limited liability partnership formed, incorporated, or registered outside India which establishes a place of business within India.
- (ii) **"Business"** includes every trade, profession, service, and occupation and occupation except any activity which the Central Government may, by notification, exclude.
- (iii) **"Designated partner"**: Every Limited liability partnership should have at least two designated partners who are individuals and at least one to them should be a resident in India. Provided that in case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies

corporate, at least two individuals who are partners of such limited liability partnership or nominees of such body corporate will act as designated partners.

- (iv) **"Resident in India"**: For the purposes of this section, the term "resident in India" means a person who has stayed in India for a period of not less than 120 days during the immediately preceding one year.

Question 5

- (a) *Citrine Limited* went into voluntary liquidation on 31st March, 2023. The following balances were extracted from its books as on that date:

	₹
Property, Plant and Equipment	5,15,000
Inventory	4,50,000
Trade receivables	1,85,000
Bank balance	90,000
Profit & Loss A/c (Dr. balance)	3,61,000
Trade payables	2,75,000
Outstanding Expenses (including Bank interest)	76,000
7% Bank loan (secured by floating charge)	3,60,000
2,500 12% cumulative Preference shares of ₹ 100 each, fully paid	2,50,000
4,000 Equity shares of ₹ 100 each, fully paid	4,00,000
4,000 Equity shares of ₹ 100 each, ₹ 60 paid up	2,40,000

Other information:

- (i) On 1st April, 2023 the liquidator sold *Citrine Limited's* Property, Plant and Equipment for ₹ 3,98,200 and Inventory for ₹ 4,10,100 and the consideration satisfied as ₹ 7,55,800 in cash and the balance in 8% Debentures of ₹ 100 each of the purchasing company issued to the liquidator at a premium of 5%.
- (ii) Trade Receivables were realized for ₹ 1,41,700.
- (iii) The Bank loan was fully paid on 30th April, 2023 along with interest from 1st October, 2022.
- (iv) Trade payables were paid after 4% discount and outstanding expenses excluding bank interest were settled for ₹ 24,000.
- (v) Six month's interest on debentures was received on 30th September 2023.

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- (vi) Liquidation expenses amounting to ₹ 32,800 and liquidator's remuneration of 2% on assets realized except cash were paid on 30th September, 2023.
- (vii) Preference Dividends were in arrears for 2 years.
- (viii) Preference shareholders were paid out in cash.
- (ix) The debentures of Citrine Limited and the balance of cash were distributed rateably among equity shareholders.
- (x) Calls on partly paid shares were made but the amount due on 500 shares was found to be irrecoverable.

You are required to prepare the Liquidator's Statement of Account showing the distribution.

- (b) Adriti Bank Limited provides you with the following information as on 31st March, 2023:

	₹ in Lakhs
Cash Credit	1836
Term Loans	1532
Fixed Deposits	581
Current Accounts	1234
Saving Accounts	1852
Bill Discounted	835

Additional Information:

- (i) Cash Credits include a doubtful account of ₹ 15 lakhs (including interest of ₹ 1.5 lakhs)
- (ii) 25% of Cash Credits are unsecured, 50% of Term Loans are secured by Government Guarantees, and other portion is secured by Tangible Assets.
- (iii) Current Account includes accounts overdrawn to the extent of ₹ 136 lakhs.
- (iv) Required Cash Reserve Ratio is 4% and Liquid Reserve Ratio is 25% of demand and time liabilities.

You are required to:

- (i) Show the above Ledger balances in the relevant schedules in the Financial Statements of the Adriti Bank Limited; and
- (ii) Calculate the amount of Cash Reserve and Statutory Liquid Reserve required to be maintained. **(10 + 10 = 20 Marks)**

Answer

(a)

Citrine Processors Limited

Liquidator's Statement of Account

Receipts			₹	Payments			₹
To	Assets realized -			By	Liquidation expenses		32,800
	Bank balance		90,000	By	Liquidator's Remuneration (W.N.1)		19,000
	Other assets:			By	7% Bank Loan	3,60,000	
	PPE and Inventory	7,55,800			Interest on Loan (7 months)	<u>14,700</u>	3,74,700
	Trade receivables	<u>1,41,700</u>	8,97,500	By	Trade payables (2,75,000X96%)		2,64,000
To	8% Debentures		52,500	By	Outstanding Expenses		24,000
To	Interest on 8% Debentures (6 months)		2,000	By	Preference shareholders:		
To	Cash				Preference capital	2,50,000	
To	Call on equity shareholders (3,500X ₹ 19)		66,500		Arrear of Dividend	<u>60,000</u>	3,10,000
					Equity shareholders @ ₹ 21 on 4,000 shares		
				By	8% Debentures	52,500	
					Cash	<u>31,500</u>	84,000

Working Notes:

	₹
1. Assets sold including stock in trade (3,98,200+4,10,100)	8,08,300
Consideration received:	
By way of Cash	7,55,800
By ₹ 50,000, 8% Debentures (at a premium of 5%)	52,500
2. Disbursement to Shareholders	
Preference Shareholders	2,50,000
Equity Shareholders:	
(By way of 8% Debentures, i.e., ₹ 7,55,800 & the remaining amount in cash ₹)	

(3) Liquidator's remuneration $9,50,000 \times 2/100 = 19,000$

(4) Return per equity share

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	₹
Deficit before paying equity shareholders (₹ 10,24,500 – ₹ 9,89,500)	(35,000)
Add: Notional calls 3,500 shares (4,000-500) × ₹ 40	<u>1,40,000</u>
Available for equity shareholders	<u>1,05,000</u>
Total Available for equity shareholders	
Balance cash	1,05,000
8% Debentures	<u>52,500</u>
	<u>1,57,500</u>
Number of shares deemed fully paid up	7,500 shares
Refund per share (1,57,500 / 7,500)	₹ 21
Loss per share (100-21)	₹ 79
Call on partly paid shares ₹ 19 (79-60) on 3,500 shares	₹ 19

(b) **Relevant Schedules (forming part of the Balance sheet) of Adriti Bank**

Schedule 3: Deposits

	₹ in lacs
A Demand deposits (1,234 – 136)	1,098
B Saving bank deposits	1,852
C Term deposits (Fixed Deposits)	<u>581</u>
	<u>3,531</u>

Schedule 9: Advances

	₹ in lacs
A (i) Bills discounted and purchased	835
(ii) Cash credits and overdrafts (1,836 + 136)	1,972
(iii) Term loans	<u>1532</u>
	<u>4339</u>
(i) Secured by tangible assets (bal. fig.)	3,114
(ii) Secured by Bank/Government guarantees (1532 x 50%)	766
(iii) Unsecured (1836 x 25%)	<u>459</u>
	<u>4,339</u>

Schedule 5: Other Liabilities & Provisions

	₹ in lacs
Others (Provision for doubtful debts)	1.5

Profit and Loss Account (an extract)

	₹ in lacs
Less: Provision for doubtful debts*	1.5

Total Demand & Time Liability	3,531
Cash Reserve 4%	141.25
SLR 25%	882.75

Note: The overdrawn extent in Current Accounts will be shown as Overdrafts.

*Note: It is assumed that the cash credit has been in 'doubtful' category for more than three years, hence provision made at 100%.

Question 6

Answer any **four** of the following:

- (a) Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	As on 31 st March, 2023		Revalued Figures for Amalgamation	
	Raman Limited (₹)	Naman Limited (₹)	Raman Limited (₹)	Naman Limited (₹)
Equity shares of ₹ 10 each	6,72,000	2,52,000		
10% Preference Shares of ₹ 100 each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

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The purchase consideration is to be satisfied as follows:

- (i) By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.
- (ii) By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.
- (iii) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

- (b) The following is the extract of Balance Sheet of Yellow Limited as on 31.03.2023:

	₹
4,00,000 Equity shares of ₹ 10 each	40,00,000
General Reserve	48,00,000
Profit & Loss Account	10,00,000
Securities Premium	18,00,000
Secured Loans	60,00,000
Unsecured Loans	32,00,000
Current Liabilities	28,00,000
	2,36,00,000
Property, Plant and Equipment	90,00,000
Investments	18,00,000
Current Assets	1,28,00,000
	2,36,00,000

The company intends to buy-back 80,000 equity shares of ₹ 10 each at a premium of 150%.

You are required to state whether the company can buy back equity shares.

- (c) Rose Limited grants 3,000 stock options to its employees on 1.4.2020 at ₹ 50.

The vesting period is two and a half years. The maximum exercise period is one year.

Market price on that date is ₹ 80. Fair value per option is ₹ 30.

All the options were exercised on 30.9.2023.

You are required to pass the necessary journal entries if the face value of equity share is ₹ 10 per share.

- (d) Analyse the disclosure and presentation requirements of AS 24 for Discontinuing Operations (any **five**).
- (e) Panna Limited purchased software from Agate Limited for a period of 5 years and capitalized the cost. It provided you the following information:

Cost of software ₹ 57,60,000.

Expected Life cycle of the software 5 years

The software was amortised at ₹ 6,40,000 per annum in first three years based on economic benefits derived from the software. After three years, it was found that the software may be used for another 5 years from then. So, Panna Limited got it renewed after expiry of five years for 3 more years.

The net cash flows from the software during these 5 years were expected to be as follows:

Year 1	₹ 23,04,000
Year 2	₹ 29,44,000
Year 3	₹ 28,16,000
Year 4	₹ 25,60,000
Year 5	₹ 21,76,000

You are required to calculate the amortization cost of the software for each of the years.

(5 Marks x 4 Parts = 20 Marks)

Answer

(a) Purchase consideration

	Raman Ltd.	Naman Ltd.
	₹	₹
Payable to preference shareholders:		
Preference shares at ₹ 115 per share	5,15,200	2,57,600
	$(3,360 \times \frac{4}{3})$	$(1,680 \times \frac{4}{3})$
Equity Shares at ₹ 12 per share	13,44,000	5,04,000
	$(67,200 \times \frac{5}{3})$	$(25,200 \times \frac{5}{3})$
Cash [See W.N.]	<u>41,260</u>	<u>94,980</u>
	<u>19,00,460</u>	<u>8,56,580</u>

Working note:

	<i>Raman Ltd.</i>	<i>Naman Ltd.</i>
	₹	₹
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	<u>2,35,240</u>	<u>1,60,480</u>
	19,81,100	10,25,540
Less: Trade payables	<u>(80,640)</u>	<u>(1,68,960)</u>
	19,00,460	8,56,580
Payable in shares	<u>18,59,200</u>	<u>7,61,600</u>
Payable in cash	<u>41,260</u>	<u>94,980</u>

(b) Determination of Buy-back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test

<i>Particulars</i>	<i>(Shares)</i>
Number of shares outstanding	4,00,000
25% of the shares outstanding	1,00,000

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

<i>Particulars</i>	
Paid up capital (₹)	40,00,000
Free reserves (₹) (48,00,000 + 18,00,000 + 10,00,000)	<u>76,00,000</u>
Shareholders' funds (₹)	<u>1,16,00,000</u>
25% of Shareholders fund (₹)	29,00,000
Buy-back price per share	₹ 25
Number of shares that can be bought back (shares)	1,16,000
Actual Number of shares for buy-back	80,000

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back

Debt Equity ratio of the company should not exceed 2:1 after such buy-back. In this case, the debt is ₹ 92,00,000 (60,00,000 + 32,00,000)* and equity after such buy back will be ₹ 96,00,000 (1,16,00,000 – 20,00,000). Thus, the debt equity ratio is 0.96:1, which is less than 2:1.

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy 80,000 equity shares @ ₹ 25.

(c) **Books of Rose Ltd.**
Journal Entries

Date	Particulars	Debit ₹	Credit ₹
31.3.2021	Employees Compensation Expense Account Dr. 36,000 To Employees Stock Option Outstanding Account 36,000 (Being compensation expense recognized in respect of 3,000 options granted to employees at fair value of ₹ 30 each, amortized on straight line basis over 2½ years) (Refer WN)		
	Profit and Loss Account Dr. 36,000 To Employees Compensation Expense Account 36,000 (Being employees compensation expense of the year transferred to P&L A/c)		
31.3.2022	Employees Compensation Expense Account Dr. 36,000 To Employees Stock Option Outstanding Account 36,000 (Being compensation expense recognized in respect of 3,000 options granted to employees at discount of ₹ 30 each, amortized on straight line basis over 2½ years) (Refer WN)		

*Total debt may be considered (i.e including current liability).

31.3.2023	Profit and Loss Account	Dr.	36,000	
	To Employees Compensation Expense Account			36,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.3.2023	Employees Compensation Expense Account	Dr.	18,000	
	To Employees Stock Option Outstanding Account			18,000
	(Being balance of compensation expense amortized ₹ 90,000 less ₹ 72,000) (Refer WN)			
30.9.2023	Profit and Loss Account	Dr.	18,000	
	To Employees Compensation Expense Account			18,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
30.9.2023	Bank Account (₹ 50 × 3,000)	Dr.	1,50,000	
	To Equity Share Capital Account			30,000
	To Securities Premium Account			1,20,000
	(Being exercise of 3,000 options at an exercise price of ₹ 50)			
30.9.2023	Stock Option Outstanding A/c (₹ 30 × 3,000)	Dr.	90,000	
	To Securities Premium Account			90,000
	(Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c)			

Working Notes:

1. Total employees compensation expense = 3,000 × ₹ 30 = ₹ 90,000
2. Employees compensation expense has been written off during 2½ years on straight line basis as under:
 - I year = ₹ 36,000 (for full year)
 - II year = ₹ 36,000 (for full year)
 - III year = ₹ 18,000 (for half year)

- (d) An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:
- a. A description of the discontinuing operation(s).
 - b. The business or geographical segment(s) in which it is reported as per AS 17.
 - c. The date and nature of the initial disclosure event.
 - d. The date or period in which the discontinuance is expected to be completed if known or determinable.
 - e. The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled.
 - f. The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period.
 - g. The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto.
 - h. The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period.
- (e) Panna Limited amortised ₹ 6,40,000 per annum for the first three years i.e. ₹ 19,20,000. The remaining carrying cost can be amortised during next 5 years on the basis of net cash flows arising from the sale of the product. The amortisation may be found as follows:

Year	Net cash flows ₹	Amortisation Ratio	Amortisation Amount ₹
I	-	0.1111	6,40,000
II	-	0.1111	6,40,000
III	-	<u>0.1111</u>	6,40,000
IV	23,04,000	0.180	691200
V	29,44,000	0.230	883200
VI	28,16,000	0.220	844800
VII	25,60,000	0.200	768000
IX	<u>21,76,000</u>	<u>0.170</u>	652800
Total	<u>1,28,00,000</u>	<u>1.000</u>	<u>57,60,000</u>

It may be seen from above that from fourth year onwards, the balance of carrying amount i.e., ₹ 38,40,000 has been amortised in the ratio of net cash flows arising from the product of Panna Ltd.