TOPPER'S INSTITUE

CA INTER – Advanced Accounts - RTP

Q1. is compulsory, Attempt any **Five** questions from the remaining **Six** questions

Working Notes should form part of the Answers

Q.1 Answer the following: **[4 × 5 = 20 Marks]**

(a) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement?

(b) Is remuneration paid to Board of Directors a related party transaction? Explain.

(c) A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per Month)	**Clothes washing Bar (Per month)**
January 2016 – September 2016	2,00,000	2,00,000
October 2016 – December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has padded a resolution in March 2016 to this effect. The company follows calendar year as its accounting year.
You required to advise the company whether it should be treated as discontinuing operation or not as per AS 24?

(d) The company has not made provisions for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier.
You are required to examine in line with the provisions of AS 29.

Q.2 Given below are the profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017:

	Hello Ltd. (₹ in lacs)	**Sun Ltd. (₹ in lacs)**
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	2,000	400
	12,000	2,400
Expenses:		
Raw material consumed	1,600	400
Wages and salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	200	100

	4,800	1,400
Profit before tax	7,200	1,000
Provision for tax	2,400	400
Profit after tax	4,800	600
Dividend paid	2,400	300
Balance of Profit	2,400	300

Other Information:

Hello Ltd. sold goods to Sun Ltd. of ₹ 240 lacs at cost plus 20%. Inventory of Sun Ltd. includes such goods valuing ₹ 48 lacs. Administrative expenses of Sun Ltd. include ₹ 10 lacs paid to Hello Ltd. as consultancy fees. Selling and distribution expenses of Hello Ltd. include ₹ 20 lacs to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of ₹ 2,000 lacs in Sun Ltd. prior to 2015-2016. Hello Ltd. took credit to its Profit and Loss Account, the proportionate account of dividend declared and paid by Sun Ltd. for the year 2015-2016.

[16 Marks]

Q.3 Alpha Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2016:

	₹ in '000	**₹ in '000**
Equity & liabilities		
Share Capital:		
Authorized Capital:		5,000
Issued and Subscribed Capital:		
3,00,000 Equity shares of ₹ 10 each fully paid up	3,000	
20,000 9% Preference Shares of 100 each	2,000	
(issued two months back for the purpose of buy back)		5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities -10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	2,750
Less: Provision for depreciation	250	5000
Non-current investments at cost		
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

(1) The company passed a resolution to buy back 20% of its equity capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25lakhs.

(2) The company redeemed the preference shares at a premium of 10% on 1st April, 2016.

(3) Included in its investments were Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April, 2016.

You are required to pass necessary Journal entries and prepare the Balance Sheet on 01.04.2016.

[16 Marks]

Q.4 Following is the Balance Sheet of Aditya Ltd. as at 31st March, 2016:

Liabilities	₹	Assets	₹
15,000, 10% Preference shares of		Goodwill	13,50,000
₹ 100each	15,00,000	Land & Buildings	15,00,000
35,000 Equity shares of ₹100 each	35,00,000	Plant & Machinery	10,00,000
Securities Premium account	1,00,000	Inventory	6,00,000
7% Debentures of Rs. 100 each	5,00,000	Trade receivables	15,00,000
Trade payables	12,50,000	Cash at bank	1,00,000
Loan from Director	1,50,000	Profit & loss A/c	19,50,000
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.
The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend. at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.

(iv) The Debenture holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debenture holders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery; Inventory and Trade receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.

(vii) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
Shares were fully taken up.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions. **[16 Marks]**

Q.5(a) The following is the summarized Balance Sheet of Alpha Ltd. as at 31st march, 2017:

Liabilities	(₹ in Lakhs)	Assets	(₹ in Lakhs)
Share Capital:		Fixed Assets:	
Equity Shares of ₹10 each	200.00	Land and buildings	100.00
9% Preference share	40.00	Plant and Machinery	321.00
Fully paid up			
Reserve and Surplus:		Furniture and Fixture	22.00
General Reserve	48.00	Vehicles	20.00
Profit and Loss	121.60	Investments	40.00
Secured Loans:		Inventory	27.00
10% Debentures	20.00	Trade Receivables	19.60
12% Term loan	72.00	Cash and banks	41.60
Trade Payables	64.00		
Provision for taxation	25.60		
	591.20		591.20

Non-trade investments were 20% of the total investments.

Balances as on 1.4.2016 to the following accounts were as: Profit and Loss account ₹ 43.20 lakhs, General reserve ₹ 46 lakhs.
Alpha Ltd. desires to value goodwill. For the purpose of valuation of goodwill, the company requires you to calculate average capital employed.

(b) While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

	₹ In Lakhs
Standard Assets	53,600
Sub-standard Assets	2,680
Secured portions of doubtful debts:	
• Up to one year	640
• One year to three years	180
• More than three years	60
Unsecured portions of doubtful debts	194
Loss Assets	96

Calculation the amount of provisions, which must be made against the Advances as per the Non-Banking financial company – Non-systemically important non-deposit taking company (reserve bank) directions, 2016.

[8 + 8 = 16 Marks]

Q.6. (a) A Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio.

Particulars	**Head Office (₹)**
Equity share capital	500.00
Statutory reserve	270.00
Capital reserve (of which ₹ 16 crores were due to revaluation of assets and the balance due to sale of capital asset)	78.00
Assets:	
Cash balance with RBI	10.00
Balance with other banks	18.00
Other investments	36.00
Loans and advances:	
(i) Guaranteed by the Government	16.50
(ii) Others	5,675.00
Premises, furniture and fixtures	78.00
Off-Balance Sheet items:	
(i) Guarantee and other obligations	800.00
(ii) Acceptances, endorsements and letter of credit	4,800.00

(b) From the following information furnished to you by Vridhi Insurance Co. Ltd., you are required to pass Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2016.

(i) On 31.12.2015, it had reserve for unexpired risks amounting to ₹ 40 crores. It comprised of ₹ 15 crores in respect of marine insurance business, 20 crores in respect of fire insurance business and ₹ 5 crores in respect of miscellaneous insurance business.

(ii) Vridhi Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous-income policies.

(iii) During 2016, the following business was conducted:

		(₹ in crores)	
	Marine	**Fire**	**Miscellaneous**
Premium collected from: (a) Insured in respect of policies issued	18.00	43.00	12.00
(b) Other insurance companies in respect of risks undertaken	7.00	5.00	4.00
Premium paid/payable to other insurance companies on business ceded	6.70	4.30	7.00

[8+8 = 16 Marks]

Q.7 Answer any **four** of the following:

(a) Full Ltd., has signed at 31st Dec., 2015, the Balance Sheet date, a contract where the total revenue is estimated at ₹ 15 crores and total cost is estimated at ₹ 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended 31st December, 2015 in his accounts?

(b) The Board of Directors of Kumar ltd. decided on 31.3.2016 to increase sale price of certain items of goods sold retrospectively from 1st January, 2016. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2016 to 31.3.2016. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.

(c) Annual lease rent = ₹ 40,000 at the end of each year

Lease period = 5 years

Guaranteed residual value = ₹ 14,000

Fair value at the inception (beginning) of lease = ₹ 1,50,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7, 0.622, 0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

(d) From the following information relating to y Ltd. Calculate Earnings Per Share (EPS):

	₹ in crores
Profit before V.R.S. payments but after depreciation	75.00
Depreciation	10.00
VRS payments	32.10
Provision for taxation	10.00
Fringe benefit tax	5.00
Paid up share capl1al (shares of ₹ 10 each fully paid)	93.00

(e) What are the costs that are to be included in Research and Development costs as per AS 26.

[4 × 4 =16 Marks]

ADV. ACCOUNTS - RTP SOLUTIONS

Ans. 1

(a) Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results. For example if the assets of a company primarily consist of debtors and insurance claims and the financial statements do not specify that the insurance claims have been lying unrealized for a number of years or that a few key debtors have not given balance confirmation certificates, an erroneous conclusion may be drawn on the liquidity of the company. Financial statements are said to depict the true and fair view of the business of the organization by virtue of neutrality.

(b) In case of a Company, the Managing Director, whole time director, manager and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered Key Managerial Personnel (KMP).

Persons who do not have the authority and responsibility for planning, directing and controlling the activities of the enterprise would not be KMP. Conversely, persons without any formal titles may be considered to be KMP, if they plan, direct and control the activities of the enterprise.

Further, as per Sec 2(76) of Companies Act, 2013, a related party includes a director or his relative. Sec 2(34) defines a director as a director appointed to the Board of a Company.

Hence, remuneration paid to Board of Directors will be considered as related party transaction.

(c) As per AS 24 'Discontinuing Operations', a discontinuing operation is a component of an enterprise:

i. that the enterprise, pursuant to a single plan, is:
   - disposing of substantially in its entirety,
   - disposing of piecemeal, or
   - terminating through abandonment; and

ii. that represents a separate major line of business or geographical area of operations; and

iii. that can be distinguished operationally and for financial reporting purposes.

As per provisions of the standard, business enterprises frequently close facilities, abandon products or even product lines, and change the size of their work force in response to market forces. While those kinds of terminations generally are not, in themselves, discontinuing operations, they can occur in connection with a discontinuing operation. Examples of activities that do not necessarily satisfy criterion of discontinuing operation are gradual or evolutionary phasing out of a product line or class of service, discontinuing, even if relatively abruptly, several products within an ongoing line of business;

In the given case, the company has enforced a gradual enforcement of change in product line and does not represent a separate major line of business and hence is not a discontinued operation. If it were a discontinuing operation, the initial disclosure event is the occurrence of one of the following, whichever occurs earlier:

- the enterprise has entered into a binding sale agreement for substantially all of the assets attributable to the discontinuing operation; or
- the enterprises board of directors or similar governing body has both approved a detailed, formal plan for discontinuance and made an announcement of the plan.

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

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

Ans. 2. ***Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the years ended on 31st March, 2017***

Particulars	Note No.	₹ In lacs
I. Revenue from operations	1	11,730
II. Total revenue		11,730
III. Expenses		
Cost of Material purchase/consumed	3	2,360
Changes of Inventories of finished goods	2	(2,392)
Employee benefit expenses	4	1,900
Finance cost	6	300
Depreciation and amortization expenses	7	300
Other expenses	5	1,070
Total expenses		3,538
IV. Profit before Tax (II-III)		8,192
V. Tax Expenses	8	2,800
VI. Profit After Tax		5,392
Profit transferred to consolidated Balance Sheet		
Profit After tax		5,392
Dividend paid		
Hello Ltd.	2,400	
Sun Ltd.	300	
	2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.		
80% of Rs.300 lacs	(240)	2,460
Profit to be transferred to consolidated balance sheet		2,932

Notes to Accounts

		₹ in lacs	₹ in lacs
1.	Revenue from operations		
	Sales and other income		
	Hello Ltd.	10,000	
	Sun Ltd.	2,000	
		12,000	
	Less: Inter company sales	(240)	
	Consultancy fees received by Hello Ltd. from Sun Ltd.	(10)	
	Commission received by Sun Ltd, from Hello Ltd.	(20)	11,730
2.	Increase in inventory		
	Hello Ltd.	2,000	
	Sun Ltd.	400	
		2,400	

	Less: Unrealized profit Rs. 48 lacs × 20/120	8	2,392 14,122
3.	Cost of material purchase / consumed Hello Ltd. Sun Ltd. Less: Purchase by Sun Ltd. from Hello Ltd. Direct Expenses Hello Ltd. Sun Ltd.	 1,600 400 2,000 (240) 400 200	 1,760 600 2,360
4.	Employee benefits and Expenses Wages and Salaries: Hello Ltd. Sun Ltd.	 1,600 300	 1,900
5.	Other Expenses Administrative Expenses Hello Ltd. Sun Ltd. Less: Consultancy fees received by Hello Ltd. from Sun Ltd. Selling and Distribution Expenses: Hello Ltd. Sun Ltd. Less: Commission received from Sun Ltd. from Hello Ltd.	 400 200 600 (10) 400 100 500 (20)	 590 480 1,070
6.	Finance Cost Interest: Hello Ltd. Sun Ltd.	 200 100	 300
7.	Depreciation and Amortization Depreciation: Hello Ltd. Sun Ltd.	 200 100	 300
8.	Provisions for Tax Hello Ltd. Sun Ltd.	 2,400 400	 2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-16 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings(which is also not given).

Ans.3 **Journal Entries in the books of Alpha Ltd.**

	Particulars		Dr. ₹ In '000	Dr. ₹ In '000
1	Bank A/c	Dr.	2,500	
	Profit and Loss A/c	Dr.	500	
	To Investment A/c			3,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2	Preference share capital A/c	Dr.	2,000	
	Premium on redemption of Preference Shares A/c	Dr.	200	
	To Preference shareholders A/c			2,200
	(Being redemption of preference share capital at premium of 10%)			
3	Preference Share Holders A/c	Dr.	2,200	
	To Bank A/c			2,200
	(Being payment made to preference shareholders)			
4	Equity Share Capital A/c	Dr.	600	
	Securities premium A/c (Premium payable on buy-back)	Dr.	300	
	To Equity Shares buy-back A/c			900
	(Being the amount due on buy-back of equity shares)			
5	Equity shares buy-back A/c	Dr.	900	
	To Bank A/c			900
6	10% Debenture A/c	Dr.	330	
	To Own Debentures A/c			300
	To Capital Reserve A/c (Profit on cancellation)			30
	(Being own debentures cancelled at profit)			
7	Securities Premium A/c	Dr.	200	
	To Premium o redemption of preference shares A/c			200
	(Being premium on redemption of preference shares adjusted through securities premium)			
8	Revenue Reserve A/c	Dr.	2,000	
	To Capital redemption reserve A/c (Refer Note)			2,000
	(Being creation of capital redemption reserve to the extent of nominal value of preference shares redeemed)			

Balance Sheet of the Alpha Ltd. As on 1st April, 2016

		Notes No.	₹ in 000
	Equity and Liabilities		
1	Shareholders funds		
	Share Capital	1	2,400
	Reserve and Surplus	2	5,340
2	Non-current liabilities		
	Long term borrowing	3	70
3	Current liabilities		40
	Total		7,850
	Assets		
1	Non-current assets		
	a. Fixed Assets		2,750
	b. Non-current investments	4	1,700
2	Current assets	5	3,400
	Total		7,850

Notes to Account

1.	Share Capital			

	Authorized share capital: Issued, subscribed and fully paid up share capital: 2,40,000 Equity shares of ₹ 10 each, fully paid up (60,000 equity shares had been bought back and cancelled during the years)			5,000 2,400
2.	Reserves and Surplus Capital Reserves Add: Profit on cancellation of debentures Securities Premium Less: Premium on redemption of preference shares Premium on buy-back of equity shares Revenue Reserve Less: Transfer of Capital Redemption Reserve Capital Redemption Reserve Surplus (Profit & Loss Account Less: Loss on sale of investment	 10 30 500 (200) (300) 4,000 (2,000) 1,800 (500)	 40 2,000 2,000 1,300	 5,340
3.	Long Term borrowing 10% Debentures (400-330)			 70
4.	Non-Current Investments Balance as on 31.03.2016 Less: Investment sold Own Debentures Cancelled		 5,000 (3,000) (300)	 1,700
5	Current Assets Balance as on 31.03.2016 Add: Cash Received on sale of investment Less: Payment made to equity shareholders for buy back of shares Payment made to preference shareholders		 4,000 2,500 (900) (2,200)	 3,400

Note: In the given solution, it is assumed that buy-back of shares has been done out of the proceeds of issue of preference shares, therefore, no amount is transferred to capital redemption reserve for buy-back. However, if it is assumed that buy-back is from sale of investments and not from the proceeds of issue of preference shares, then, amount of revenue reserves transferred to capital redemption reserve will be ₹ 2,600 instead of ₹ 2,000.

Ans.4 **In the books of Aditya Ltd.**

Journal Entries

	Particulars	**Dr. Amount (₹)**	**Cr. Amount (₹)**
1.	Equity Share Capital (₹ 100) A/c Dr. To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)	35,00,000	 8,75,000 26,25,000
2.	10% Preference Share Capital (₹ 100) A/c Dr. To 10% Preference Share Capital(₹ 75) A/c To Capital Reduction A/c (Being Preference shares of ₹ 100 each reduced to Rs.75 each and balance transferred to Capital Reduction A/c Total Pref. shares = 15,000)	15,00,000	 11,25,000 3,75,000
3.	10% Preference Share capital (₹ 75) A/c Dr. To 13% Preference Share Capital (₹ 50) A/c To Equity Share Capital A/c (Being one new 13% Preference Share of ₹ 50 each and one equity	11,25,000	 7,50,000 3,75,000

	share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each. Total Pref. Shares = 15,000)		
4.	Capital Reduction A/c Dr. To Preference Share dividend payable A/c (Being arrear of Preference share dividend payable for one year)	1,50,000	 1,50,000
5.	Preference share dividend payable A/c Dr. To Equity Share Capital A/c (Being Equity Shares of ₹ Each issued for arrears of preference Share dividend)	1,50,000	 1,50,000
6.	7% Debentures A/c Dr. To Debentures Holders A/c (Being balance of 7% Debentures transferred to Debentures holders A/c)	5,00,000	 5,00,000
7.	Debentures holders A/c Dr. To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c (Being 50% of Debentures holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)	5,00,000	 2,50,000 2,50,000 25,000
8.	Loan From Director A/c Dr. To Provision for Contingent Liability A/c (Being provision for contingent liability of ₹ 1,50,000 as it payable and the same is adjusted against Loan from director A/c)	1,50,000	 1,50,000
9.	Bank A/c Dr. To Equity Share Application & Allotment A/c (Being application money received on 40,000 Equity Shares @ ₹ 25 each)	10,00,000	 10,00,000
10.	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c (Being application money transferred to capital A/c, on allotment)	10,00,000	 10,00,000
11.	Underwriting Commission A/c Dr. To Bank A/c (Being underwriting commission paid)	40,000	 40,000
12.	Land & Buildings A/c Dr. To Capital Reduction A/c Dr. (Being value of Land & Buildings appreciated)	3,00,000	 3,00,000
13.	Expenses on Reconstruction A/c Dr. To Bank A/c (Being payment of expenses on reconstruction)	15,000	 15,000
14.	Capital Reduction A/c To Goodwill A/c To Plant & Machinery A/c To Inventory A/c To Trade receivables A/c To Profit s Loss A/c To Expenses on Reconstruction A/c To Underwriting Commission A/c To Capital Reserve A/c (bal fig) (Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)	31,75,000	 3,50,000 4,00,000 1,00,000 1,50,000 19,50,000 15,000 40,000 1,70,000

Note: Capital Reduction Account is inter changeable with Internal Reconstruction Account or Reconstruction Account. Any Account form may be used in answering the question.

Ans.5(a) ***Computation of Average Capital Employed***

		(₹ In Lakhs)
Total Assets as per Balance Sheet		591.20
Less: Non trade investments (20% of Rs.40 lakhs)		8.00
		583.20
Less: Outside Liabilities:		
10% Debentures	20.00	
12% Term Loan	72.00	
Trade Payables	64.00	
Provisions for taxation	25.60	(181.60)
Capital Employed as on 31.03.2017		401.60
Less: ½ of profit earned during the year:		
Increase in general reserve balance	2.00	
Increase in Profit & loss A/c	78.40	
	80.40/2	40.20
Average capital employed		361.40

(b) ***Consolidated Profit & Loss Account of Hello Ltd. and its subsidiary Sun Ltd. for the years ended on 31st March, 2017***

Particulars		Note No.	₹ In lacs
I. Revenue from operations		1	11,730
II. Total revenue			11,730
III. Expenses			
Cost of Material purchase/consumed		3	2,360
Changes of Inventories of finished goods		2	(2,392)
Employee benefit expenses		4	1,900
Finance cost		6	300
Depreciation and amortization expenses		7	300
Other expenses		5	1,070
Total expenses			3,538
IV. Profit before Tax (II-III)			8,192
V. Tax Expenses		8	2,800
VI. Profit After Tax			5,392
Profit transferred to consolidated Balance Sheet			
Profit After tax			5,392
Dividend paid			
Hello Ltd.		2,400	
Sun Ltd.		300	
		2,700	
Less: Share of Hello Ltd. in dividend of Sun Ltd.			
80% of Rs.300 lacs		(240)	2,460
Profit to be transferred to consolidated balance sheet			2,932

Notes to Accounts

		₹ in lacs	₹ in lacs
1.	Revenue from operations		

	Sales and other income Hello Ltd. Sun Ltd. Less: Inter company sales Consultancy fees received by Hello Ltd. from Sun Ltd. Commission received by Sun Ltd, from Hello Ltd.	 10,000 2,000 12,000 (240) (10) (20)	 11,730
1.	Increase in inventory Hello Ltd. Sun Ltd. Less: Unrealized profit Rs. 48 lacs × 20/120	 2,000 400 2,400 8	 2,392 14,122
2.	Cost of material purchase / consumed Hello Ltd. Sun Ltd. Less: Purchase by Sun Ltd. from Hello Ltd. Direct Expenses Hello Ltd. Sun Ltd.	 1,600 400 2,000 (240) 400 200	 1,760 600 2,360
3.	Employee benefits and Expenses Wages and Salaries: Hello Ltd. Sun Ltd.	 1,600 300	 1,900
4.	Other Expenses Administrative Expenses Hello Ltd. Sun Ltd. Less: Consultancy fees received by Hello Ltd. from Sun Ltd. Selling and Distribution Expenses: Hello Ltd. Sun Ltd. Less: Commission received from Sun Ltd. from Hello Ltd.	 400 200 600 (10) 400 100 500 (20)	 590 480 1,070
5.	Finance Cost Interest: Hello Ltd. Sun Ltd.	 200 100	 300
6.	Depreciation and Amortization Depreciation: Hello Ltd. Sun Ltd.	 200 100	 300
7.	Provisions for Tax Hello Ltd. Sun Ltd.	 2,400 400	 2,800

Note: Since the amount of dividend received by Hello Ltd. for the year 2015-16 is not given, it has not been deducted from 'sales and other income' in consolidated profit and loss account and not added to consolidated opening retained earnings(which is also not given).

(b) Calculation of Provisions required on advance as on 31st March, 2017:

	Amount ₹ in Lakhs	Percentage of provision	Provision ₹ In lakhs
Standard Assets	53,600	25	134.00
Sub-Standard Assets	2,680	10	268.00
Secured portions of doubtful debts			
• Up to one year	640	20	128.00
• One year to three years	180	30	54.00
• More than three years	60	50	30.00
Unsecured portions of doubtful debts	194	100	194.00
Loss Assets	96	100	96.00
			904.00

Ans.6 (a)

	₹ in crores	₹ in crores
Capital Funds - Tier I		500
Equity share capital		270
Statutory reserve		62
Capital reserve (arising out of sale of assets) (78-16)		832
Capital Funds – Tier II		
Capital reserve. (arising out of revaluation of assets)	16	
Less: Discount to the extent of 55%	(8.8)	7.2
		839.2

		₹ In crores	% of weight	₹ n crores
	Risk Adjusted Assets			
	Funded Risk assets			
	Cash balance with RBI	10	0	0
	Balance with other banks	18	20	3.60
	Other investments	36	102.5	36.90
	Loans and advances:			
	(i) Guaranteed by the government	16.5	0	0
	(ii) Others	5,675	100	5,675
	Premises, furniture and fixtures	78	100	78
				5,793.50
		₹ In crores	**Credit conversion factor**	
	Off-Balance Sheet items:			
	Guarantees and other obligations	800	100	800
	Acceptances, endorsements and letters of credit	4,800	100	4,800
				11,393,50

Risk Weighted Assets Ratio:

$$\frac{Capital\ Fund \times 100}{Risk\ adjusted\ assets}$$

(839.2/11,393.50) × 100 = 7.37%

At present, capital adequacy ratio as per RBI norms is 9%. Therefore, Bank has to improve the ratio by introducing further Tier I capital.

Note: As per RBI Master Guidelines dated 1st July 2013, Revaluation Reserves have been advised to be discounted by 55%.

(b) **In the books of Vridhi Insurance Co. ltd.**

Journal Entries

Date	Particulars	(₹ in crores)	
		Dr.	**Cr.**
1.1.2016	Unexpired Risk Reserve (Fire) A/c Dr. Unexpired Risk Reserve (Marine) A/c Dr. Unexpired Risk Reserve (Miscellaneous) A/c Dr. To Fire Revenue Account To Marine Revenue Account To Miscellaneous Revenue Account (Being unexpired risk reserve brought forward from last year)	20.00 15.00 5.00	 20.00 15.00 5.00
31.12.2016	Marine Revenue Dr. To Unexpired Risk Reserve A/c (Being closing reserve for unexpired created at 100% of net premium amounting to ₹ 18.3 crores i.e.18+7- 6.70)	18.30	 18.30
	Fire Revenue A/c Dr. To Unexpired Risk Reserve (Being closing reserve for unexpired created at 50% of net premium income of ₹ 43.7 crores i.e.43 + 5 - 4.30)	21.85	 21.85
	Miscellaneous Revenue A/c Dr. To Unexpired Risk Reserve (Being closing reserve for unexpired created at 50% net premium income of crores i.e. 12+4-7)	4.50	 4.50

Unexpired Risk Reserve Account

Date	Particulars	Marine ₹	Fire ₹	Misc. ₹	Date	Particulars	Marine ₹	Fire ₹	Misc. ₹
1.1.16	To Revenue A/c	15.00	20.00	5.00	1.1.16	By Balance b/d	15.00	20.00	5.00
31.12.16	To Balance c/d	18.30	21.85	4.50	31.12.16	By Revenue A/c	18.30	21.85	4.50
		33.30	**41.85**	**9.50**			**33.30**	**41.85**	**9.50**

Ans. 7

(a) As per para 35 of AS' 7 'Construction Contracts', when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract Thus, Full Ltd. should recognize loss amounting ₹ 5 crores for the year ended 31st December, 2015. The contract should be reviewed at the end of the each accounting period till completions for additional losses to be incurred, if any.

(b) As per para 10 of AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of Kumar Ltd., of ₹ 5 lakhs to be recognised as income for financial year 2015-16, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

(c) **Journal entry in the books of lessee**

	₹	₹
Asset A/c To Lessor (Being recognition of finance lease as an asset and a liability)	1,49,888	1,49,888

Working Note:

Year	Lease Payments ₹	Discounting Factor (12.6%)	Present Value ₹
1	40,000	0.89	35,600
2	40,000	0.79	31,600
3	40,000	0.70	28,000
4	40,000	0.622	24,880
5	40,000	0.552	22,080
5	14,000(GRV)	0.552	7,728
			1,49,888

(d)

		₹ in crores
Profit after depreciation but before VRS Payment		75.00
Less: Depreciation - No. adjustment required	-	
VRS payments	32.10	
Provision for taxation	10.00	
Fringe benefit tax	5.00	(47.10)
Net Profit		27.90
No. of shares		9.30 crores

(e) According to paras 41 and 43 of AS 26, "No intangible asset arising from research (or from the research phase of an internal project) should be recognized in the research phase. Expenditure on research (or on the research phase of an internal project) should be recognized as an expense when it is incurred.

Examples of research costs are:

- Costs of activities aimed at obtaining. new knowledge;
- Costs of the search for, evaluation and final selection of, applications of research findings or other knowledge;
- Costs of the search for alternatives for materials, devices, products, processes, systems or services; and
- Costs of the activities involved in formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes systems or services.

According to paras 45 and 46 of AS 26, "In the development phase of a project, an enterprise can, in some instances, identify an intangible asset and demonstrate that future economic benefits from the asset are probable. This is because the development phase of a project is further advanced than the research phase.

Examples of development activities/costs are:

- Costs of the design, construction and testing of pre-production or pre-use prototypes and models;
- Costs of the design of tools, jigs, moulds and dies involving new technology;
- Costs of the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- Costs of the design, construction and testing of a. chosen alternative for new or improved materials, devices, products, processes, systems or services.