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INTER CA
MAY '19
REVISION NOTES
ADVANCED ACCOUNTING

INTERNAL RECONSTRUCTION

Q.1. The Balance Sheet of Neptune Ltd., as on 31.3.2011 is given below :

Liabilities	**₹**	**₹**	**Assets**	**₹**
80,000 Equity shares of ₹ 10 each fully paid		8,00,000	Freehold Property	5,00,000
5,000, 6% Cumulative preference shares of ₹100 each fully paid		5,00,000	Plant & Machinery	1,80,000
6% Debentures (secured by freehold property)	3,75,000		Trade investment (at cost)	1,70,000
Arrear interest	22,500	3,97,500	Sundry debtors	4,50,000
Sundry creditors		17,500	Stock in trade	2,00,000
Directors Loan		3,00,000	Deferred advertisement expenditure	1,50,000
			Profit and Loss A/c	3,65,000
		20,15,000		**20,15,000**

The Court approved a scheme of re-organisation to take effect on 1.4.2011 and the terms are given below :

(i) Preference shares are to be written down to ₹ 75 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 4 years to be waived by 75% and for the balance equity shares of ₹ 2 each to be allotted.

(iii) Arrear of debenture interest to be paid in cash.

(iv) Debentureholders agreed to take one freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(v) Deferred advertisement expenditure to be written off.

(vi) Stock value to be written off fully in the books.

(vii) 50% of the Sundry Debtors to be written off as bad debt.

(viii) Remaining freehold property (after takeover by debentureholders) to be valued at ₹ 3,50,000.

(ix) Investment sold out for ₹ 2,00,000.

(x) 80% of the Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be issued.

(xi) Company's contractual commitments amounting to ₹ 5,00,000 to be cancelled by paying penalty at 3% of contract value.

(xii) Cost of reconstruction scheme is ₹ 20,000.

Show the Journal entries to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme.

Q.2. Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2011:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60 each,		Property, machinery and	
₹ 30 paid up	----	plant etc.(Cost ₹ 3,90,000)	
First debentures	3,00,000	Estimated at	1,50,000
Second debentures	6,00,000	Cash in hand	
Unsecured trade payables	4,50,000	of the receiver	2,70,000
		Charged under debentures	4,20,000
		Uncalled capital	1,80,000
			6,00,000
	--------------	Deficiency	7,50,000
	13,50,000		**13,50,000**

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured trade payables for ₹ 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
2. B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each fully paid against their claim for each share of ₹ 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

CONSOLIDATED FINANCIAL STATEMENT

Q.1. The balance sheet of Big Limited and Small Limited as at 31st March, 2012 were as under:

	Big Ltd.	Small Ltd.		Big Ltd.	Small Ltd.
	₹	₹		₹	₹
Equity Capital	9,00,000	3,00,000	Fixed Assets	9,00,000	4,00,000
(Shares of ₹ 10 each)			Investments	6,00,000	--
General Reserve	5,00,000	30,000	Sundry Debtors	1,60,000	90,000
Profit & Loss A/c.	6,00,000	2,00,000	Inventory	2,10,000	1,20,000
Sundry Creditors	1,00,000	1,70,000	Cash & Bank	2,30,000	90,000
	21,00,000	**7,00,000**		**21,00,000**	**7,00,000**

Big Ltd. has acquired 75 per cent of Small Ltd.'s shares at ₹ 6,00,000 on 1st July, 2011. Small Ltd. had an opening balance of ₹ 1,00,000 in Profit and Loss Account from which it paid dividend for 2010-2011 at 20 per cent on 30th September, 2011. The dividend received by Big Ltd. is included in its Profit & Loss Account.

Inventory of Big Ltd. included ₹ 20,000 out of purchases of ₹ 50,000 made from Small Ltd. in January 2012. Credit period is 100 days. Small Ltd. had sold these items at a margin of 25 per cent on cost. There had been no change in the General Reserve Account of Small Ltd. during 2011-2012.

Prepare a consolidated balance sheet as at 31st March, 2012.

Q.2. Ltd. acquired 1,600 ordinary shares of ` 100 each of B Ltd. on 30th September, 2011. On 31st March, 2012 the Balance Sheets of the two companies were as given below :

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
	₹	₹		₹	₹
Share Capital			Land & Buildings	1,50,000	1,80,000
(of ₹ 100 each fully paid)	5,00,000	2,00,000	Plant & Machinery	2,40,000	1,35,000
Reserves	2,40,000	1,00,000	Investment in B Ltd.		
Profit & Loss A/c	57,200	82,000	at cost	3,40,000	---
Bank Overdraft	80,000	---	Stock	1,20,000	36,4000
Bills Payable	---	8,400	Sundry Debtors	44,000	40,000
Creditors	47,100	9,000	Bills Receivable	15,8000	---
			Cash	14,500	8,000
	9,24,300	**3,99,400**		**9,24,300**	**3,99,400**

The Profit & Loss Account of B Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2011 out of which a dividend of 10% was paid on 31st October, 2011 ; A Ltd. has credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st April, 2011 was considered as worth ₹ 1,80,000 on 30th September, 2011 ; this figure is to be considered while consolidating the Balance Sheets.

Prepare consolidated Balance Sheet as on 31st March, 2012.

Q.3. A Ltd. acquired 70% of equity shares of B Ltd. as on 1st January, 2010 at a cost of ₹ 10,00,000 when B Ltd. had an equity share capital of ₹ 10,00,000 and reserves and surplus of ₹ 80,000. Both the companies follow calendar year as the accounting year. In the four consecutive years, B Ltd. fared badly and suffered losses of ₹ 2,50,000, 4,00,000, ₹ 5,00,000 and ₹ 1,20,000 respectively. Thereafter in 2014, B Ltd. experienced turnaround and registered an annual profit of ₹ 50,000. In the next two years i.e. 2015 and 2016, B Ltd. recorded annual profits of ₹ 1,00,000 and ₹ 1,50,000 respectively.

Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

VALUATION OF GOODWILL

Q.1. Negotiation is going on for transfer of X Ltd. on the basis of the Balance Sheet and the additional information as given below :

Balance sheet of X Ltd. as on 31st March, 2012.

	₹		₹
Share Capital			
(₹ 10 fully paid up share)	10,00,000	Goodwill	1,00,000
Reserve and Surplus	4,00,000	Land & Building	3,00,000
Sundry Creditors	3,00,000	Plant and Machinery	8,00,000
		Investment	1,00,000
		Stock	2,00,000
		Debtors	1,50,000
		Cash and Bank	50,000
	17,00,000		**17,00,000**

Profit before tax for 2011-2012 amounted to ₹ 6,00,000 including ₹ 10,000 as interest on investment. However, an additional amount of ₹ 50,000 p.a. shall be required to be spent for smooth running of the business.

Market values of Land and Buildings and Plant and Machinery are estimated at ₹ 9,00,000, and ₹ 10,00,000 respectively. In order to match the above figures further depreciation to the extent of ₹ 40,000 should be taken into consideration. Income tax rate may be taken at 50%. Return on capital at the rate of 20% before tax may be considered normal for this business at the present stage.

For the purpose of determining the rate of return, profit for this year after the aforesaid adjustments may be taken as the expected average profit. Similarly, average trading capital employed is also to be considered on the basis of the position in this year.

It has been agreed that 4 years purchase of super profit shall be taken as the value of goodwill for the purpose of the deal.

You are requested to calculate the value of goodwill of the company.

Q.2. The following is the Balance Sheet of Alpha Limited as on 31st March, 2012 :

Liabilities	₹	₹	**Assets**	₹
Share Capital :			Land & Building	4,00,000
Equity Shares of			Machinery	4,50,000
₹ 100 each	10,00,000		Motorcar	25,000
Less Calls in			Furniture	25,000
Arrears (₹ 20	1,00,000	9,00,000	Investments (face value)	50,000
for final call)			<u>Current Assets :</u>	
Reserve and Surplus :			Stock	7,25,000
General Reserve	3,50,000		Sundry Debtors	2,00,000
Profit & Loss Account	2,50,000	6,00,000	Cash at Bank	1,05,000
<u>Current Liabilities :</u>			<u>Miscellaneous</u>	
Sundry Creditors		5,00,000	<u>Expenditure</u>	
			Preliminary Expenses	20,000
		20,00,000		**20,00,000**

Additional information is as under :

(1) Fixed Assets are worth-
  Building ₹ 6,00,000
  Machinery ₹ 5,20,000

(2) All investments are non-trading investments and are to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investments.

(3) For the purpose of valuation of shares, goodwill is to be valued on the basis of 3 years purchase of super profits based on average profit (after tax) of the last three years.

(4) Depreciation on appreciated value of Land and Building and Machinery is not to be considered for valuation of goodwill.

(5) Profits (after tax) are as follows :

31^{st} March	₹
2010	3,80,000
2011	4,20,000
2012	5,00,000

Rate of income tax 50%

In similar business, return on capital employed is 20% (after tax).

(6) In 2009-2010 machinery (Book value ₹ 20,000) was sold for ₹ 20,000 but the proceeds were wrongly credited to profit and loss account. The mistake has not yet been rectified.

Depreciation has been charged on machinery @ 10% per annum on reducing balance method.

Find out the value of Goodwill.

Note : Trend in profit is to be ignored for the purpose of calculation of average profit.

Q.3. From the follwing data find out the leverage effect on Goodwill :

(i)	Current cost of capital employed	₹12,48,000
(ii)	Profit earned after current cost adjustment	₹ 2,20,000
(iii)	12% long term secured loan	₹ 5,40,000
(iv)	Normal rate of return :	

On equity capital employed 16.20%

On long term capital employed 14.25%

FINANCIAL STATEMENTS OF INSURANCE COMPANIES

Q.1. From the following information as on 31st March 2011, prepare the Revenue Account of the Indian Marine Insurance Co. Ltd.

	Direct Business	Reinsurance
	₹	₹
I. Premium :		
Received	46,00,000	7,20,000
Receivable - 1st April	2,48,000	27,000
- 31st March	3,36,000	34,000
Paid	-	4,60,000
Payable - 1st April	-	37,000
- 31st March	-	62,000
II. Claims :		
Paid	23,50,000	3,00,000
Payable - 1st April	1,66,000	39,000
- 31st March	2,08,000	44,000
Received	-	1,70,000
Receivable - 1st April	-	16,000
- 31st March	-	23,000
III. Commission :		
On Insurance accepted	2,20,000	19,000
On Re – insurance ceded	-	26,000

IV. Other Expenses and Income
Salaries - ₹ 3,20,000, Rent Rates and Taxes ₹ 29,000; Postage & Telegrams ₹ 43,000; Indian Marine Tax paid -₹ 4,40,000; Interest, Dividends and Rent (Gross) ₹ 1,37,500; Income Tax deducted at Source ₹ 40,250; Legal expenses (inclusive of ₹ 40,000 in connection with settlement of claims) ₹ 72,000.

V. Balance of Fund on 1st April, ₹ 38,45,000 including Additional Reserve of ₹ 4,45,000. Additional Reserve has to be maintained at 5% of the net premium of the year.

Q.2. From the following information furnished to you by Ayushman 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 2013.

(a) On 31.12.2012, 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.

(b) Ayushman 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.

(c) During 2013, 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

LIQUIDATION OF COMPANIES

Q.1. The following is the Balance Sheet of M/s. Unfortunate Limited as on 31st March, 2017.

Liabilities		₹	Assets	₹
Share Capital			Land and Building	2,00,000
Authorised & Subscribed :			Plant & Machinery	5,00,000
4,000 6% pref. shares of ₹ 100 each	4,00,000		Patents	80,000
2,000 Equity shares ₹ 100 each,			Stock at cost	1,10,000
₹ 75 per share paid up	1,50,000		Sundry Debtors	2,20,000
6,000 Equity shares of ₹ 100			Cash at Bank	60,000
each,₹ 60 per share paid up	3,60,000	9,10,000	Profit and Loss Account	2,40,000
5% Debentures (have floating charges on all assets)		2,00,000		
Interest outstanding on Debentures also secured as above		10,000		
Creditors		2,90,000		
		14,10,000		**14,10,000**

On that date, the Company went into liquidation. The dividends on preference shares were in arrears for two years. The arrears are payable on liquidation as per the Articles of the Company. Creditors include a loan of` 1,00,000 on Mortgage of Land and Buildings. The assets realised are as under :

	₹
Land and Buildings	2,40,000
Plant & Machinery	4,00,000
Patents	60,000
Stock	1,20,000
Sundry Debtors	1,60,000

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to commission of 3% on all assets realised and a commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount of ₹ 30,000. All payments were made on 30th September, 2017.

Prepare the Liquidator's statement of Account.

Q.2. Bad Luck Limited went into voluntary liquidation and the proceedings commenced on 2nd July, 2016. Certain creditors could not receive payment out of the realisation of assets and out of the contributions from the contributories of the A list. The following details of share transfers are made available to you.

Name of the transferror	No of Shares transferred	Date of transferror ceasing to be member	Creditors remaining unpaid and outstanding at the time of the transferror ceasing to be a member (₹)
A	1,000	1st May, 2004	6,000
B	1,250	15th Aug., 2015	8,000
C	500	1st Oct., 2015	10,750
D	2,000	1st Dec., 2015	13,000
E	250	1st April, 2016	15,000

All the shares were of ₹ 10 each, on which ₹ 5 per share had been paid up. Ignoring other details like liquidator's expenses etc., you are required to work out the liability of the individual contributories listed above.

FINANCIAL STATEMENTS OF BANKING COMPANIES

Q.1. Following are the statements of interest on advance in respect of performing and non-performing assets of Madura Bank Ltd. find out the income to be recognised for the year ended 31st March 2011.

Performing Assets	(₹ in Lakhs) Interest Earned	Interest Received
Cash Credits and Overdrafts	1,8000	1060
Term Loan	480	320
Bills purchased and Discounted	700	550
Non- Performing Assets		
Cash Credits and Overdrafts	450	70
Term Loan	300	40
Bills purchased and Discounted	350	36

Q.2. The following is an extract from Trial Balance of Overseas Bank Ltd. as at 31st March, 2017.

	₹	₹
Bills discounted	12,64,000	
Rebate on bills discounted not due On March 31st, 2016		22,160
Discount received		1,05,708

An analysis of the bills discounted is as follows :

	Amount ₹	Due Date 2017	Rate of Discount %
(i)	1,40,000	June 5	14
(ii)	4,36,000	June 12	14
(iii)	2,82,000	June 25	14
(iv)	4,06,000	July 6	16

Calculate Rebate on Bills Discounted as on 31.3.2017 and show necessary journal entries.

Q.3. From the following information find out the amount of provisions required to be made in the Profit & Loss Account of a commercial bank for the year ended 31st March, 2011 :

(i) Packing credit outstanding from Food Processors ₹ 60 lakhs which the bank holds securities worth ₹ 15 lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for 3 years.

(ii) Other advances :

Assets classification	₹ in lakhs
Standard	7,000
Sub-standard (includes secured exposures ₹ 1000 lacs & balance unsecured exposure of ₹ 2500 lacs includes ₹ 1500 lacs in respect of infrastructure loan a/c where escrow a/c is available)	3,500
Doubtful : (Secured)	
Upto one year	500
More than 1 year upto three years	600

For more than 3 years	300
Loss assets	200
Doubtful : (Unsecured)	1,500

Q.4. Mohan Bank Ltd., gives you the following information for the year 2016 - 2017

(i) Export credit given ₹ 50 lakhs
ECGC cover 40%
Securities held ₹10 lakhs(realisable value of ₹ 12 lakhs)
Period for which the advance has remained doubtful 2 years

(ii) Term Loan ₹ 75 lakhs
DICGC cover 50% (maximum limit ₹ 20 lakhs)
Securities held ₹ 20 lakhs (realisable value ₹ 18 lakhs)
Period for which the loan has remained doubtful 1 year

You are asked to compute the provision required on the above advances.

Q.5. From the following information, prepare Profit and Loss A/c of Hyderabad Bank Ltd. for the year ended 31st March 2011.

Items	'000 ₹
Interest on Cash Credit	18,20
Interest on Overdraft	7,50
Interest on term loans	15,40
Income on investments	8,40
Interest on balance with RBI	1,50
Commission on remittances and transfer	75
Rebate or Bills Discounted (1.4.2010)	1,20
Discount on bills Discounted	1,18
Rent Received	82
Profit on sale of land and building	27
Rebate on Bills Discounted	52
Interest paid on deposit	17,20
Auditor's fees and allowances	1,20
Directors fees and allowances	2,50
Advertisements	1,80
Salaries, allowances and bonus to employees	12,40
Depreciation	1,40
Payment to Provident Fund	2,80
Printing and Stationery	1,40
Repairs and Maintenance	50
Postage, telegrams, telephones	80

Other Information :

(i) Interest on NPA is as follows :

	Earned (₹ '000)	Collected (₹ '000)
Cash Credit	820	4,00
Overdraft	450	1,00
Term Loans	750	2,50

(ii) Classification of advances ('000 ₹)
(a) Sub-standard : 1,120
(b) Doubtful assets covered by security for 3 years 2,00
(c) Doubtful assets covered by security for one year : 60
(d) Loss Assets : 2,00

(iii) Investments: 27,50
Bank should not keep more than 25% of its investments as held to maturity investment. The market value of its held for trading 75% investment is ₹ 2052.50 thousands as on 31.3.2017.

(iv) Provide for tax @ 40%.

MUTUAL FUNDS

Q.1. Sparrow Holdings is a SEBI Registered Mutual Fund which made its maiden N.F.O (New Fund Offer) on 10th April, 2016 at ₹ 10 face value per unit. Subscription was received for 90 lakhs units. An underwriting arrangement was also entered into with Affinity Capital Markets Ltd., that agreed to underwrite the entire NFO of 100 lakh units on a commission of 1.5%.

Out of the monies received ₹ 892.50 lakhs was invested in various capital market instruments.

The marketing expenses for the N.F.O amounted to ₹ 11.25 lakhs. During the financial year ended March 2013 the Fund sold securities having cost of ₹ 127.25 lakh (FV ₹ 54.36 lakhs) for ₹ 141.25 lakhs. The fund in turn purchased securities for ₹ 130 lakhs. The management expenses of the fund are regulated by SEBI stipulations which state that the same shall not exceed 0.25% of the average funds invested during the year. The actual amount spent towards management expenses was ₹ 2.47 lakhs of which ₹ 47,000 was in arrear. The dividends earned on the investments held amounted to ₹ 2.51 lakhs of which a sum of ₹ 25,000 is yet to be collected. The fund distributed 80% of realized earnings. The closing market value of the portfolio was ₹ 1120.23 lakhs.

You are required to determine the closing per unit NAV of the fund.

Q.2. On 1.4.2016 a mutual fund scheme had 9 lakh units of face value ₹ 10 outstanding. The scheme earned ₹ 81 lakh in 2016-17, out of which ₹ 45 lakh was earned in first half-year. 1 lakh units were sold on 30.09.16 at NAV of ₹ 60. Show important accounting entries for sale of units and distribution of dividend at the end of 2016-17.

NON-BANKING FINANCIAL COMPANIES

Q.1. Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	
Deposits	400	group companies	100
		In debentures of subsidiaries	
		and group Companies	100
		Cash and bank balances	200
		Deferred expenditure	200
	1,400		**1,400**

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

Q.2. While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	₹ in lakhs
Standard assets	16,800
Sub-standard assets	1,340
Secured portions of doubtful debts:	
- upto one year	320
- one year to three years	90
- more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances as per

(i) The Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and

(ii) Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

Q.3. ABC Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ending 31st March, 2018:

Asset Funded	Interest Overdue but recognized in Profit & Loss		Net book value of Assets outstanding ₹ in lakhs
	Period Overdue	Interest (₹ in lakhs)	
Computers	Upto 12 months	960.00	40,812.00
Televisions	For 20 months	205.00	4,950.00
Washing Machines	For 32 months	104.20	2,530.00
Refrigerators	For 45 months	53.50	1,328.00
Air – conditioners	For 52 months	13.85	305.00

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

BUYBACK

Q.1. Kuber Ltd. furnishes you with the following Balance Sheet as at 31st March, 2017.

(₹ in crores)

	₹	₹
Sources of funds :		
Share Capital :		
Authorised		100
Issued :	75	
12% redeemable preference shares of ₹ 100 each fully paid	25	100
Equity shares of ₹ 10 each fully paid		
Reserves and Surplus :		
Capital reserve	10	
Securities premium	30	
Revenue reserves	260	300
Total		**400**
Funds employed in		
Fixed assets : Cost	100	
Less : Provision for depreciation	100	Nil
Investments at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less : Current liabilities	40	300
Total		**400**

The company redeemed preference shares on 1st April, 2017 at 5% premium. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balance, which appeared as part of current assets. You are asked to pass journal entries to record the above.

Q.2. Following is the Balance Sheet of M/s Competent Limited as on 31st March, 2013:

Liabilities	₹	**Assets**	₹
Equity Shares of ₹ 10 Each fully paid	12,50,000	Fixed Assets	46,50,000
Revenue reserve	15,00,000	Current Assets	30,00,000
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Secured Loans:			
12% Debentures	18,75,000		
Unsecured Loans	10,00,000		
Current maturities of long-term borrowings	16,50,000		
Total	**76,50,000**	**Total**	**76,50,000**

The company wants to buy back 25,000 equity shares of ₹ 10 each, on 1st April, 2013 at ₹ 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of Current Assets.

Comment with your calculations, whether buy back of shares by company is within the provisions of the companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

ESOP

Q.1. A company has its share capital divided into share of ₹ 10 each. On 1st April, 2016 it granted 10,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2016 and 15th March, 2011. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year.

Q.2. ABC Ltd. grants 1,000 employees stock options on 1.4.2016 at ₹40, when the market price is ₹ 160. The vesting period is 21/2 years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2016. 600 options are exercised on 30.6.2017. 100 vested options lapse at the end of the exercise period.
Pass Journal Entries giving suitable narrations.

UNDERWRITERS LIABILITY

Q.1. Libra Ltd. came up with an issue of 20,00,000 equity shares of ₹ 10 each at par 5,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters - Anand, Vijay and Ashok - equally, with firm underwriting of 50,000 shares each. Subscriptions totalled 12,97,000 shares including the marked forms which were :

Anand	4,25,000 Shares
Vijay	4,50,000 Shares
Ashok	3,50,000 Shares

The amounts payable on application and allotment were ₹ 2.50 and ₹ 2 respectively. The agreed commission was 2.5%.

Pass summary journal entries for :

(a) the allotment of shares to the underwriters;

(b) the commission due to each of them, and

(c) the net cash paid and / or received.

Q.2. A joint stock company resolved to issue 10 lakh equity shares of ₹10 each at a premium of `1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows :

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X 1,19,500 shares, Y 57,500 shares and Z 10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

(i) Prepare a statements calculating underwriters' liability for shares other than shares underwritten firm.

(ii) Pass journal entries for all the transactions including cash transactions.

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Q.1. Ajanta Limited agreed to acquire the business of Elora Limited as on 31st March, 2017. The Balance Sheet of Elora Limited as on that date was as under :

liabilities	₹	Assets	₹
Paid - up Capital :		Fixed Assets :	
10,000, 12% Preference Shares		Land & Building	2,00,000
of ₹ 10 each	1,00,000	Machineries	1,00,000
20,000 Equity Shares of		Current Assets :	
₹ 10 each	2,00,000	Stock	2,00,000
Reserve	20,000	Debtors	50,000
Profit & Loss A/c	30,000	Cash & Bank Balance	35,000
7% Debentures	1,00,000	Miscellaneous Expenditure:	
Sundry Creditors	1,50,000	Preliminary Expenses	10,000
		Debenture Discount	5,000
	6,00,000		**6,00,000**

The consideration payable by Ajanta Limited was agreed as under :

(i) The Preference Shareholders of Elora Limited were to be allotted 14% Preference Shares of ₹ 1,10,000.

(ii) Equity Shareholders to be allotted six Equity Shares of ₹ 10 each issued at a premium of 10% and ₹ 3 cash against every five shares held.

(iii) 7% Debentureholders of Elora Limited to be paid at 8% premium by issue of 9% Debenture at 10% discount.

While arriving at the agreed consideration, the Directors of Ajanta Limited valued Land & Building at ₹ 2,50,000, Stock ₹ 2,20,000 and Debtors at their book value subject to an allowance of 5% Doubtful Debts. Liquidation expenses are ₹ 5,000.

Close the books of Elora Limited and show Journal of Ajanta Ltd.

Q.2. The Balance Sheet of X Co. Ltd. and Y Ltd. on 31st March, 2017 are as follows :

Balance Sheet of X Co. Ltd.

Liabilities		₹	Assets		₹
Share Capital :			Fixed Asset :		
Authorised Capital of			Goodwill	80,000	
10,000 shares of ₹ 100 each		10,00,000	Others	8,00,000	8,80,000
Issued Capital:			Current Assets,		
10,000 shares of ₹ 100 each fully paid		10,00,000	Loans and Advances		9,00,000
Reserves & Surplus					
Capital Reserve	2,00,000				
General Reserve	70,000	2,70,000			
Unsecured Loans		2,00,000			
Current Liabilities & Provisions					
Sundry Creditors		3,10,000			
Total		**17,80,000**	**Total**		**17,80,000**

Balance Sheet of Y Ltd.

Liabilities	Amount	Assets	Amount
Share Capital Authorised Capital 2,00,000 shares of ₹ 10 each	20,00,000	Fixed Assets	16,00,000
Issued Capital: 80,000 shares of ₹ 10 each fully paid	8,00,000	Current Assets, Loans and Advances: Bank 2,00,000 Others 6,60,000	8,60,000
Reserves and Surplus : General Reserve	8,00,000		
Secured Loans	5,00,000		
Current Liabilities & Provisions Sundry Creditors	3,60,000		
Total	**24,60,000**	**Total**	**24,60,000**

It was proposed that X Co. Ltd. should be taken over by Y Co. Ltd. The following arrangements were accepted by both the companies.

(a) Goodwill of X Co. Ltd. is considered valueless.

(b) Arrears of depreciation in X Co. Ltd. amounted to ₹ 40,000

(c) The holder of every 2 shares in X Co. Ltd. was to receive.

  (i) As fully paid 10 shares in Y Co. Ltd. and

  (ii) So much cash as is necessary to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares as per their Balance Sheet, subject to necessary adjustment with regard to Goodwill and depreciation in X Co. Ltd.'s Balance Sheet.

You are required to :

1. Determine the composition of purchase consideration
2. Show the Balance Sheet after absorption.

Q.3. White Ltd. and Blue Ltd. propose to sell their business to a new company being formed for that purpose.

The summarised balance sheet as on 31st March, 2017 and profits of the companies for the past three years are as follows :

Liabilities	White Ltd.	Blue Ltd.	Assets	White Ltd.	Blue Ltd.
	₹	₹		₹	₹
Equity shares of ₹ 10 each	6,00,000	2,50,000	Freehold properly (at cost)	3,60,000	1,20,000
Capital reserve	--	1,50,000	Plant & machinery (at cost)	3,20,000	1,80,000
General reserve	3,90,000	1,20,000			
Profit and loss a/c	1,10,000	1,60,000	Investment (at cost)	--	1,00,000
Creditors	2,15,800	1,26,800	Stock - in - trade	1,10,000	89,500
			Debtors	89,000	64,000
			Balance at bank	4,36,800	2,53,300
	13,15,800	**8,06,800**		**13,15,800**	**8,06,800**

	White Ltd.	Blue Ltd.
	₹	₹
Net profits for the year ended :		
31st March, 2015	1,74,500	1,07,600
31st March, 2016	1,93,400	1,22,900
31st March, 2017	2,14,700	1,44,500

You are given the following relevant information.

It is agreed:

(1) That the properties and plant and machinery be re-valued as follows :

	White Ltd.	Blue Ltd.
	₹	₹
Freehold property	4,48,000	1,44,000
Plant and machinery	3,05,700	1,72,950

(2) That the value of stocks be reduced by 10% and a provision of 121/2% be made on debtors for bad and doubtful debts.

(3) That goodwill be valued at two years purchase of the average annual trading profits of the past three years after deducting a standard profit of 10% on the net trading assets before revaluation or adjustment on 31st March, 2017. Blue Ltd. had earned ₹ 17,000 on an average on its investments.

You are required to prepare the opening balance sheet of the new company.

Q.4. The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2017 :

(₹ in lakhs)

Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference Shares of ₹ 10 each fully paid up	1,200	----
Capital Reserve	600	----
General Reserve	2,100	----
Profit and Loss Account	780	----
8% Redeemable debentures of ₹ 1,000 each	----	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	**1,662**
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	----	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	----	33
Discount on Issue of Debentures	----	6
	11,571	**1,662**

A new Company MN Ltd was got incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each for the purpose of amalgamation in the nature of merger. M Ltd and N Ltd were merged into MN Ltd on the following terms :

(i) Purchase consideration for M Ltd's business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd to the preference and equity shareholders of M Ltd in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd's business, MN Ltd to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd and N Ltd amounting to ₹ 6 lakhs are to be borne by MN Ltd

(iv) 8% redeemable debentures of N Ltd to be converted into 8.5% redeemable debentures of MN Ltd

(v) Expenses on incorporation of MN Ltd were ₹ 15 lakhs.

You are requested to :

(a) Pass necessary Journal entries in the books of MN Ltd to record above transactions, and

(b) Prepare Balance Sheet of MN Ltd after merger.

Q.5. Following is the Balance Sheet of Govind Limited as on 31st March, 2017 :

Liabilities	₹	Assets	₹
Share Capital :		Goodwill	4,00,000
20,000 Equity Shares of		Land and Building	15,60,000
₹ 100 each fully paid	20,00,000	Plant & Machinery	14,00,000
Reserve Fund	5,00,000	Patent Rights	3,50,000
Sinking Fund	1,00,000	Stock	2,00,000
Workmen's Accident		Sundry Debtors	4,00,000
Compensation Fund		Investment	1,00,000
(Estimated Liability ₹ 9,000)	50,000	Cash at Bank	1,30,000
Development Reserve	1,00,000		
Staff Provident Fund	1,50,000		
Sundry Creditors	1,40,000		
'A' Debentures	4,00,000		
'B' Debentures	10,00,000		
Loan from Ramkrishna Ltd.	1,00,000		
	45,40,000		**45,40,000**

Ramakrishna Limited absorbed Govind Ltd. on the date of its above Balance Sheet. The terms being :

1. The payment of cost of absorption not exceeding ₹ 8000/-.
2. The repayment of the 'B' Debentures at a premium of 5% in cash.
3. The discharge of 'A' Debentures at a premium of 10% by the issue of 6% debentures in Ramakrishna Limited at 20% Discount.
4. A payment of ₹ 15 per share in cash.
5. Allotment of one 7% preference share of ₹ 100 each fully paid and five equity shares of ₹ 10 each fully paid for every four equity shares in Govind Ltd.
6. The actual expenses of absorption came to ₹ 10,000/-.
7. Stock of Govind Limited includes goods valued at ₹ 56,000/- purchased from Ramakrishna Limited which company invoices goods at cost plus 162/3%.
8. The directors of Ramakrishna Limited decided to create a provision of 5% on sundry debtors against doubtful debts.
9. Contingent liabillity ₹ 1,00,000 of Govind Ltd. settled by Ramakrishna Ltd. at ₹ 20,000.
10. Debtors of Govind Limited includes ₹50,000 due from Ramakrishna Ltd.

Pass Journal Entries in the books of Ramakrishna Limited.