MOCK TEST PAPER - 1

INTERMEDIATE (NEW) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) (i) AS 29 "Provisions, Contingent Liabilities and Contingent Assets" provides that when an enterprise has a present obligation, as a result of past events, that probably requires an outflow of resources and a reliable estimate can be made of the amount of obligation, a provision should be recognised. Sun Ltd. has the obligation to deliver the goods within the scheduled time as per the contract. It is probable that Sun Ltd. will fail to deliver the goods within the schedule and it is also possible to estimate the amount of compensation. Therefore, Sun Ltd. should provide for the contingency amounting Rs. 1.5 crores as per AS 29.

(ii) Provision should not be measured as the excess of compensation to be paid over the profit. The goods were not manufactured before 31st March, 2016 and no profit had accrued for the financial year 2015-2016. Therefore, provision should be made for the full amount of compensation amounting Rs. 1.50 crores.

(b) As per provisions of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognized when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case. Hence, the expenses amounting Rs. 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2018.

(c) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Value of machinery

In the given case, fair value of the machinery is Rs. 10, 00,000 and the net present value of minimum lease payments is Rs. 10, 07,020 (Refer working Note). As the present value of the machine is more than the fair value of the machine, the machine and the corresponding liability will be recorded at value of Rs.10,00,000.

Calculation of finance charges for each year

Year	*Finance charge (Rs.)*	*Payment (Rs.)*	*Reduction in outstanding liability (Rs.)*	*Outstanding liability (Rs.)*
1st year beginning	-	-	-	10,00,000
End of 1st year	1,60,000	3,50,000	1,90,000	8,10,000
End of 2nd year	1,29,600	3,50,000	2,20,400	5,89,600
End of 3rd year	94,336	3,50,000	2,55,664	3,33,936
End of 4th year	53,430	3,50,000	2,96,570	37,366*

** The difference between this figure and guaranteed residual value (Rs. 50,000) is due to rounding off.*

Working Note:

Present value of minimum lease payments

Annual lease rental x PV factor Rs. 3,50,000 x (0.8621 + 0.7432 + 0.6407+ 0.5523) Present value of guaranteed residual value Rs. 50,000 x (0.5523)	Rs. 9,79 ,405 Rs. 27,615
	Rs. 10,07,020

(d) Computation of theoretical ex-rights fair value per share

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + Total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

$$\frac{(\text{Rs.}21.00 \times 5{,}00{,}000 \text{ shares}) + (\text{Rs.}15.00 \times 1{,}00{,}000 \text{ shares})}{5{,}00{,}000 \text{ shares} + 1{,}00{,}000 \text{ shares}}$$

Theoretical ex-rights fair value per share = Rs. 20.00

(a) **Computation of adjustment factor**

(b) $\dfrac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = \dfrac{\text{Rs.}(21.00)}{\text{Rs.}(20.00)} = 1.05$

Computation of earnings per share

	Year 2015-16	Year 2016-17
EPS for the year 2015-16 as originally reported: (Rs. 11,00,000/5,00,000 shares)	Rs. 2.20	
EPS for the year 2015-16 restated for rights issue: [Rs. 11,00,000/ (5,00,000 shares x 1.05)]	Rs. 2.10	
EPS for the year 2016-17 including effects of rights issue $\dfrac{₹\,15{,}00{,}000}{(5{,}00{,}000 \times 1.05 \times 2/12) + (6{,}00{,}000 \times 10/12)}$		Rs. 2.55

2. (a) (i) In the books of Lili Ltd.

Journal Entries

				Dr.	*Cr.*
	2017			*Rs.*	*Rs.*
1.	March 31	Equity Share Capital A/c (Rs.10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (Rs.7)			2,10,000
		(Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (Rs. 10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (Rs. 5)			2,00,000
		(Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)			

3.		Equity Share Capital A/c (30,000 x Rs.7)	Dr.	2,10,000	
		Preference Share Capital A/c (40,000 x Rs.5)	Dr.	2,00,000	
		To Equity Share Capital A/c (21,000 x Rs. 10)			2,10,000
		To Preference Share Capital A/c (20,000 x Rs.10)			2,00,000
		(Being post reduction, both classes of shares reconsolidated into Rs.10 each) s			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital Account			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)			
6.		Capital Reduction Account	Dr.	10,000	
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 – 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000
		To Capital Reduction Account (2,10,000 – 1,20,000)			90,000
		(Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)			
9.		Capital Reduction Account	Dr.	54,000	
		To Cash Account			54,000
		(Being contingent liability of Rs.54,000 paid)			
10.		Cash Account	Dr.	12,500	
		To Capital Reduction Account			12,500
		(Being pending insurance claim received)			
11.		Capital Reduction Account	Dr.	1,68,100	
		To Trademarks and Patents			1,10,000
		To Goodwill			36,100
		To Raw materials & Packing materials			10,000
		To Trade receivables			12,000
		(Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)			
12.		Cash Account	Dr.	1,26,000	
		To Equity Share Capital Account			1,26,000

		(Being 12,600 shares issued to existing shareholders)			
13.		Bank Overdraft Account	Dr.	2,23,100	
		To Cash Account			2,23,100
		(Being cash balance utilized to pay off bank overdraft)			
14.		Capital Reduction Account	Dr.	1,28,400	
		To Capital reserve Account			1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)			

(ii) Capital Reduction Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	1,28,400		
	3,92,500		3,92,500

(iii) Cash Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses	10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft - From available cash (64,000+84,600+12,500 -54,000-10,000) 97,100	
To Equity share capital 12,600 shares @ Rs.10 each	1,26,000	- From proceeds of equity share capital (2,23,100–97,100) 1,26,000	2,23,100
	2,87,100		2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in Rs.
2% on Assets realised	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		39,255
Total Remuneration payable to Liquidator		91,505

Working Note:

Liquidator's remuneration on payment to unsecured creditors = Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= Rs. 25,00,000 – Rs. 25,000 – Rs. 10,00,000 – Rs. 75,000 – Rs. 50,000 – Rs. 2,250 = Rs. 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = 3/103 x Rs. 13,47,750= Rs. 39,255

3. (a) Name of the Insurer: Xeta Insurance Company Limited

Registration No. and Date of registration with IRDA: ……………………..

Revenue Account for the year ended 31st March, 2016

Particulars	*Schedule*	*Amount (Rs.)*
Premium earned (net)	1	26,67,500
Profit on sale of investment		30,000
Others		–
Interest and dividend (gross)		1,50,000
Total (A)		28,47,500
Claims incurred (Net)	2	20,25,000
Commission	3	50,000
Operating expenses related to insurance	4	7,50,000
Total (B)		28,25,000
Operating profit from insurance business (A) – (B)		22,500

Schedule –1 Premium earned (net)

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

Schedule -2 Claims incurred (net)

	Rs.
Claims paid	19,20,000
Add: Expenses regarding claims	90,000
	20,10,000
Less: Re-insurance recoveries	(60,000)
	19,50,000
Add: Claims outstanding as on 31st March, 2016	2,70,000
	22,20,000
Less: Claims outstanding as on 31st March, 2015	(1,95,000)
	20,25,000

Schedule -3 Commission

	Rs.
Commission paid	50,000

Schedule-4 Operating expenses related to Insurance Business

	Rs.
Expenses of management (Rs. 8,40,000 – Rs. 90,000)	7,50,000

Working Note:

Calculation for change in Reserve for Unexpired risk:

		Rs.
Reserve for Unexpired Risk as on 31st March, 2016	15,67,500	
Additional Reserve as on 31st March, 2016	7,00,000	22,67,500
Less: Reserve for Unexpired Risk as on 31st March, 2015	15,00,000	
Additional Reserve as on 31st March, 2015	3,00,000	(18,00,000)
		4,67,500

(b) **In the books of Strong Bank Ltd.**

Journal Entries

Particulars		*Debit (Rs.)*	*Credit (Rs.)*
Rebate on bills discounted A/c	Dr.	27	
To Discount on bills A/c			27
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')			
Bills purchased and discounted A/c	Dr.	4,000	
To Discount on bills A/c			240
To Clients A/c			3,760
(Being the discounting of bills of exchange during the year)			
Discount on bills A/c	Dr.	18	
To Rebate on bills discounted A/c			18
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)			
Discount on bills A/c	Dr.	249	
To Profit and Loss A/c			249
(Being the amount of income for the year from discounting of bills of exchange transferred to Profit and loss A/c)			

Working Notes:

1. Discount received on the bills discounted during the year

   Rs. 4,000 crores $\times \frac{15}{100} \times \frac{146}{365}$ = Rs. 240 crores

2. Calculation of rebate on bill discounted

   Rs. 600 crores $\times \frac{15}{100} \times \frac{73}{365}$ = Rs. 18 crores

(It is assumed that discounting rate of 15% is used for the bill of Rs. 600 crores also)

3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c

Discount on bills A/c

Rs. *in crores*

Date	*Particulars*	*Amount*	*Date*	*Particulars*	*Amount*
31 March 2017	To Rebate on bills discounted	18	1st April, 2016	By Rebate on bills discounted b/f	27
"	To Profit and Loss A/c (Bal. Fig.)	249	2016-17	By Bills purchased and discounted	240
		267			267

(c)

	Rs. in lakhs	Rs. in lakhs	
Opening bank balance [Rs. (100 – 90 - 5) lakhs]	5.00		
Add: Proceeds from sale of securities	40.00		
Dividend received	1.20	46.20	
Less: Cost of securities	28.20		
Fund management expenses [Rs. (4.50–0.35) lakhs]	4.15		
Capital gains distributed [75% of Rs. (40.00 – 38.00) lakhs]	1.50		
Dividends distributed (75% of Rs. 1.20 lakhs)	0.90	(34.75)	
Closing bank balance		11.45	
Closing market value of portfolio		112	
		123.45	
Less: Arrears of expenses		(0.35)	
Closing net assets		123.10	
Number of units			10,00,000
Closing Net Assets Value (NAV)			Rs. 12.31

4. (a) **Statement determining the maximum number of shares to be bought back**

Number of shares (in crores)

Particulars	When loan fund is	
	Rs. 3,200 crores	Rs. 6,000 crores
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

Journal Entries for the Buy Back

(applicable only when loan fund is Rs. 3,200 crores)

			Rs. in crores	
			Debit	Credit
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	240	
	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve / Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

Working Notes:

1. **Shares Outstanding Test**

Particulars	*(Shares in crores)*
Number of shares outstanding	120
25% of the shares outstanding	30

2. **Resources Test**

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 crores shares

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

	Particulars	When loan fund is	
		Rs. 3,200 crores	Rs. 6,000 crores
(a)	Loan funds (Rs.)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (Rs.)	2,880	2,880

(d)	Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

4 Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1 : (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy Back

= (2,880 – x) – 1,600 = y

= 1280 – x =y (1)

Equation 2: Maximum Permitted Buy Back *X* Nominal Value Per Share/Offer Price Per Share

$= \left(\frac{y}{30} \times 10\right) = x$ Or 3x = y (2)

by solving the above two equations we get

x= Rs. 320

y = Rs. 960

(b) Statement showing liability of underwriters

a	Particulars	Basis	White	Black
A.	Gross Liability [No. of Shares)	1:1	15,00,000	15,00,000
B.	*Less:* Marked Applications {Net of firm underwriting}		(15,00,000)	(10,20,000)
C.	Balance [A-B]		-	4,80,000
D	*Less:* Unmarked Applications	1:1	(1,20,000)	(1,20,000)
E	Balance [C-D]		(1,20,000)	3,60,000
F	*Less:* Firm Underwriting		(60,000)	(60,000)
G	Balance		(1,80,000)	3,00,000
H	Credit for White 's Oversubscription		1,80,000	(1,80,000)
I	Net Liability		-	1,20,000
J	*Add:* Firm Underwriting		60,000	60,000
K	Total Liability [No. Shares]		60,000	1,80,000

Note: In the above statement, it has been assumed that the benefit of firm underwriting is given to individual underwriter.

Journal Entries

2016				
Jan 31	Bank A/c	Dr.	72,00,000	
	To Equity Share Application A/c			72,00,000

	(Being application money received @ Rs. 2.50 per share)			
March	Equity Share Application A/c	Dr.	72,00,000	
	To Equity Share Capital A/c			72,00,000
	(Being the transfer of application money to share capital on 28,80,000 shares vide Board's Resolution)			
March	Equity Share Allotment A/c (28,80,000 x Rs. 3)	Dr.	86,40,000	
	To Equity Share Capital A/c (28,80,000 x Rs. 2.5)			72,00,000
	To Securities Premium A/c (28,80,000 x Rs. 0.5)			14,40,000
	(Being allotment money due on 28,80,000 shares allotted to public)			
	Black (1,20,000 x Rs. 5.5)	Dr.	6,60,000	
	To Equity Share Capital A/c (1,20,000 x Rs. 5)			6,00,000
	To Securities Premium A/c (1,20,000 x Rs. 0.5)			60,000
	(Being the application and allotted money due on net liability of underwriter i.e. 1,20,000 shares)			
March	Bank A/c	Dr.	92,82,000	
	To Equity Share Allotment A/c [(28,80,000 – 6,000) x Rs. 3]			86,22,000
	To Black (1,20,000 x Rs. 5.5)			6,60,000
	(Being the receipt of money due on allotment except from the allottee for 6,000 shares)			
March	Underwriting Commission A/c	Dr.	12,60,000	
	To Black A/c			6,30,000
	To White A/c			6,30,000
	(Being commission @ 4 % on issue price of Rs. 10.50 for Rs. 30 lakh shares payable to underwriters)			
March	Black A/c		6,30,000	
	White A/c		6,30,000	
	To Bank A/c			12,60,000
	(Being commission paid to underwriters)			
June 30	Equity Share Capital A/c (6,000 x 5)	Dr.	30,000	
	Securities Premium A/c (6,000 x 0.5)	Dr.	3,000	
	To Share Allotment A/c (6,000 x 3)			18,000
	To Forfeited Shares A/c (6,000 x 2.5)			15,000
	(Being 6,000 shares forfeited vide Board's Resolution)			
June 30	Bank A/c (6,000 x Rs. 4)	Dr.	24,000	
	Forfeited Shares A/c	Dr.	6,000	
	To Equity Share Capital A/c (6,000 x Rs. 5)			30,000

	(Being the reissue of 6,000 shares @ Rs. 4 as Rs. 5 paid up at par)			
	Forfeited Shares A/c (15,000 – 6,000)	Dr.	9,000	
	To Capital Reserve A/c			9,000
	(Being the transfer of profit on reissue)			

5. (a) The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered. Accordingly,

Year	*Profit/(Loss)*	*Minority Interest (30%)*	*Additional Consolidated P&L (Dr.) Cr.*	*Minority's Share of losses borne by A Ltd.*		*Cost of Control*
				Rs.	*Balance*	
At the time of acquisition in 2010		3,24,000 (W.N.)	-			
2010-11	(2,50,000)	(75,000)	(1,75,000)			2,44,000 (W.N.)
Balance		2,49,000				
2011-12	(4,00,000)	(1,20,000)	(2,80,000)			2,44,000
Balance		1,29,000				
2012-13	(5,00,000)	(1,50,000)	(3,50,000)			2,44,000
		(21,000)				
	Loss of minority borne by Holding Co.	21,000	(21,000)	21,000	21,000	
Balance		Nil	(3,71,000)			
2013-14	(1,20,000)	(36,000)	(84,000)			2,44,000
	Loss of minority borne by Holding Co.	36,000	(36,000)	36,000	57,000	
Balance		Nil	(1,20,000)			
2014-15	50,000	15,000	35,000			2,44,000
	Profit share of minority adjusted against losses of minority absorbed by Holding Co.	(15,000)	15,000	(15,000)	42,000	
Balance		Nil	50,000			
2015-16	1,00,000	-	1,00,000	(30,000)	12,000	2,44,000
Balance		Nil				
2016-17	1,50,000	45,000	1,05,000	(12,000)	Nil	2,44,000
		(12,000)	12,000			
Balance		33,000	1,17,000			

Working Note:

Calculation of Minority interest and Cost of control on 1.4.2010

		Share of Holding Co.	Minority Interest
	100%	70%	30%
	(Rs.)	(Rs.)	(Rs.)
Share Capital	10,00,000	7,00,000	3,00,000
Reserve	80,000	56,000	24,000
		7,56,000	3,24,000
Less: Cost of investment		(10,00,000)	
Goodwill		2,44,000	

(b) 1. Capital Employed at the end of each year

	31.3.2013 Rs.	*31.3.2014 Rs.*	*31.3.2015 Rs.*
Goodwill	20,00,000	16,00,000	12,00,000
Building and Machinery (Revaluation)	36,00,000	40,00,000	44,00,000
Inventory (Revalued)	24,00,000	28,00,000	32,00,000
Trade Receivables	40,000	3,20,000	8,80,000
Bank Balance	2,40,000	4,00,000	8,00,000
Total Assets	82,80,000	91,20,000	104,80,000
Less: Trade Payables	(12,00,000)	(16,00,000)	(20,00,000)
Closing Capital	70,80,000	75,20,000	84,80,000
Add: Opening Capital	73,20,000	70,80,000	75,20,000
Total	1,44,00,000	1,46,00,000	1,60,00,000
Average Capital	72,00,000	73,00,000	80,00,000

Since the goodwill has been purchased, it is taken as a part of Capital employed.

2. Valuation of Goodwill

		31.3.2013	31.3.2014	31.3.2015
(i)	**Future Maintainable Profit**			
	Net Profit as given	8,40,000	12,40,000	16,40,000
	Less: Opening Balance	(2,40,000)	(2,80,000)	(3,20,000)
	Adjustment for Valuation of Opening Inventory	-	(4,00,000)	(4,00,000)
	Add: Adjustment for Valuation of closing inventory	4,00,000	4,00,000	4,00,000
	Goodwill written off	-	4,00,000	4,00,000
	Transferred to General Reserve	4,00,000	4,00,000	4,00,000
	Future Maintainable Profit	14,00,000	17,60,000	21,20,000
	Less: 12.50% Normal Return	(9,00,000)	(9,12,500)	(10,00,000)
(ii)	**Super Profit**	5,00,000	8,47,500	11,20,000

(iii) **Average Super Profit =** Rs. (5,00,000+8,47,500+11,20,000)÷3 = Rs. 8,22,500

(iv) **Value of Goodwill** at five years' purchase= Rs. 8,22,500 × 5 = Rs. 41,12,500.

6. (a) **Presentation of MAT credit in the financial statements:**

Balance Sheet: Where a company recognizes MAT credit as an asset on the basis of the considerations specified in the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income Tax Act, 1961, the same should be presented under the head 'Loans and Advances'* since, there being a convincing evidence of realization of the asset, it is of the nature of a pre-paid tax which would be adjusted against the normal income tax during the specified period. The asset may be reflected as 'MAT credit entitlement'.

In the year of set-off of credit, the amount of credit availed should be shown as a deduction from the 'Provision for Taxation' on the liabilities side of the balance sheet. The unavailed amount of MAT credit entitlement, if any, should continue to be presented under the head 'Loans and Advances' if it continues to meet the considerations stated in paragraph 11 of the Guidance Note.

Profit and Loss Account: According to explanation given for paragraph 21 of Accounting Standard 22, "Accounting for Taxes on Income" in the context of Section 115JB of the Income-tax Act, 1961, MAT is the current tax. Accordingly, the tax expense arising on account of payment of MAT should be charged at the gross amount, in the normal way, to the statement of profit and loss in the year of payment of MAT. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in this Guidance Note, the said asset should be created by way of a credit to the statement of profit and loss and presented as a separate line item therein.

OR

In accordance with the Schedule III, an investment realizable within 12 months from the reporting date is classified as a current asset. Such realisation should be in the form of cash or cash equivalents, rather than through conversion of one asset into another non-current asset. Hence, company must classify such an investment as a non-current asset, unless it expects to sell the preference shares or the equity shares on conversion and realise cash within 12 months.

(b) **Journal Entries in the books of company**

Date	Particulars	Dr. Rs.	Cr. Rs.
1-3-X2 to 31-3-X2	Bank A/c Dr.	2,40,000	
	Employees compensation expenses A/c Dr.	4,32,000	
	To Equity Share Capital A/c		48,000
	To Securities Premium A/c		6,24,000
	(Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)		
31-3-X2	Profit and Loss account Dr.	4,32,000	
	To Employees compensation expenses A/c		4,32,000
	(Being transfer of employees compensation expenses)		

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000/- in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.

* *As per Schedule III to the Companies Act, 2013, it should be presented under the head 'Non-current Assets' sub head 'Long-term Loans and Advances'.*

3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6, 24,000/- in total.

(c) 'Non-performing asset' means:

(a) an asset, in respect of which, interest has remained overdue for a period of six months or more;

(b) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of six months or more or on which interest amount remained overdue for a period of six months or more;

(c) a demand or call loan, which remained overdue for a period of six months or more from the date of demand or call or on which interest amount remained overdue for a period of six months or more;

(d) a bill which remains overdue for a period of six months or more;

(e) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of six months or more;

(f) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of six months or more;

Note: As per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016, the above six months criteria for the assets covered under (a) to (f) is 4 months for the financial year ending March 31, 2017; and from next year ending March 31, 2018 and thereafter it will be 3 months.

(g) the lease rental and hire purchase instalment, which has become overdue for a period of twelve months or more;

Note: The above twelve months criteria for the assets covered under (g) is 6 months for the financial year ending March 31, 2017 and from next year ending March 31, 2018 and thereafter it will be 3 months.

(h) in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/beneficiary when any of the above credit facilities becomes non-performing asset

(d) The balance in the Profit & Loss Account on the date of acquisition (1.1.2018) is Capital profit, as such the balance of Consolidated Profit & Loss Account shall be equal to Holding Co.'s profit.

On 31.12.2018 in each case the following amount shall be added or deducted from the balance of holding Co.'s Profit & Loss account.

	% Share holding [K]	P & L as on 31.12.2018 [L]	P & L as on consolidation date [M]	P & L post acquisition [N] = [M]-[L]	Amount to be added / (deducted) from holding's P & L [O] = [K] x [N]
1	90 %	50,000	70,000	20,000	18,000
2	85 %	30,000	20,000	(10,000)	(8,500)
3	80 %	20,000	20,000	NIL	NIL
4	100 %	40,000	55,000	15,000	15,000