## PAPER – 5: ADVANCED ACCOUNTING

*Question No.**1** is compulsory.*

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

*Working notes should form part of the respective answers.*

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

### Question 1

*Answer the following questions:*

*(a) From the following information given by Sampark Ltd., Calculate Basis EPS and Diluted EPS as per AS 20 :*

| | ₹ |
|---|---|
| *Net Profit for the current year* | *2,50,00,000* |
| *No. of Equity Shares Outstanding* | *50,00,000* |
| *No. of 12% convertible debentures of ₹100 each* | *50,000* |
| *Each debenture is convertible into 8 Equity Shares* | |
| *Interest expense for the current year* | *6,00,000* |
| *Tax saving relating to interest expense (30%)* | *1,80,000* |

*(b) On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:*

*(i) Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Rina Ltd.*

*(ii) Cash payment of ₹ 50,000 was made to equity shareholders of Rina Ltd.*

*(iii) Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Rina Ltd.*

*(iv) Debentures of Rina Ltd. (₹ 1,20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.*

*Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.*

*(c) Following transactions are disclosed as on 31st March, 2018:*

*(i) Mr. Sumit, a relative of Managing Director, received remuneration of ₹ 2,10,000 for his services in the company for the period from 1st April, 2017 to 30th June, 2017. He left the service on 1st July, 2017.*

*Should the relative be identified as a related party as on closing date i.e. on 31-3-2018 for the purpose of AS-18.*

*(ii) Goods sold amounting to ₹ 50 lakhs to associate company during the 1st quarter ended on 30th June, 2017. After that related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer.*

*Decide whether transactions of the entire year have to be disclosed as related party transactions.*

*(d) Sagar Ltd. has issued convertible bonds for ₹ 65 crores which are due to mature on 30th September, 2018.*

*While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. How should the company classify the convertible bonds as per the requirements of Schedule-III to the Companies Act, 2013 as on 31st March, 2018?*

*Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.* ***(4 Parts x 5 Marks = 20 Marks)***

**Answer**

**(a) Calculation of Basic Earning Per Share**

**Basic EPS** $= \dfrac{\text{Net Profit for the current year}}{\text{No. of Equity Shares}}$

$= \dfrac{2,50,00,000}{50,00,000}$

Basic EPS per share = ₹5

**Calculation of Diluted Earning Per Share**

**Diluted EPS =** $\dfrac{\text{Adjusted net profit for the current year}}{\text{Weighted average no. of Equity Shares}}$

| | |
|---|---|
| Adjusted net profit for the current year | ₹ |
| Net profit for the current year | 2,50,00,000 |
| Add: Interest expenses for the current year | 6,00,000 |
| Less: Tax saving relating to Tax Expenses | (1,80,000) |
| | 2,54,20,000 |

No. of equity shares resulting from conversion of debentures: 4,00,000 Shares

Weighted average no. of equity shares used to compute diluted EPS: (50,00,000 + 4,00,000) = 54,00,000 Equity Shares

Diluted earnings per share: (2,54,20,000/54,00,000) = ₹ 4.71 (Approx.)

**(b)**

| *Particulars* | ₹ |
|---|---|
| Equity Shares (50,000 x 15) | 7,50,000 |
| Cash payment | 50,000 |
| 12% Preference Share Capital | 2,00,000 |
| Purchase Consideration | 10,00,000 |

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

**Journal entry relating to discharge of consideration in the books of Tina Ltd.**

| | | |
|---|---|---|
| Liquidation of Rina Ltd.A/c | 10,00,000 | |
| To Equity share capital A/c | | 5,00,000 |
| To 12% Preference share capital A/c | | 2,00,000 |
| To Securities premium A/c | | 2,50,000 |
| To Bank/Cash A/c | | 50,000 |
| (Discharge of purchase consideration) | | |

**(c)** **(i)** According to AS 18 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period, one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Mr. Sumit a relative of key management personnel should be identified as related party as at the closing date i.e. on 31.3.2018 as he received remuneration forhis services in the company from1st April,2017 to 30th June, 2017and this period comes under the reporting period.

(ii) As per provision of AS 18, the transactions only for the period in which related party relationships exist need to be reported.

Hence, transactions of the entity with its associate company for the first quarter ending 30.06.2017 only are required to be disclosed as related party transactions. Transactions of the entire year need not be disclosed as related party transactions and transactions for the period (after 1st July) in which related party relationship did not exist need not be reported.

Hence transaction of sale of goods with the associate company for first quarter ending 30th June, 2017 for ₹ 50 Lakhs only are required to be disclosed as related party transaction on 31.3.18.

**(d)** Schedule III to the companies Act, 2013 provides that:

"A liability should be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments and do not affect its classification."

In the present situation, Sagar Ltd. does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, hence Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

The position will be same even when the bond holders are expected to convert their holdings into equity shares of Sagar Ltd. Expectations cannot be called as unconditional rights. Thus, in this situation also, Sagar Ltd. should classify the FCCBs as current liabilities as on 31st March 2018.

**Question 2**

*(a) Lucky Ltd. grants 100 stock options to each of its 1,500 employees on 1-4-2014 for ₹ 40, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is ₹ 70 each. These options will vest at the end of year 1 if the earning of Lucky Ltd. is 15%, or it will vest at the end of the year 2 if the average earning of two years is 13% or lastly it will vest at the end of the third year if the average earning of 3 years will be 10% 8,000, unvested options lapsed on 31-3-2015. 6,000 unvested options lapsed on 31-3-2016 and finally 4,000 unvested options lapsed on 31-3-2017.*

*The earnings of Lucky Ltd. for the three financial years ended on 31st March, 2015; 2016 and 2017 are 14%, 10% and 8% respectively.*

*1,250 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.*

*You are required to give the necessary journal entries for the above and also prepare the statement showing compensation expense to be recognized at the end of each year.*

*(b) Rakshit Ltd., issued 3,00,000 shares of ₹ 10 each at a premium of ₹ 5. The entire issue was underwritten by P, Q and R in the ratio of 3:2:1. Their firm underwriting was as follows:*

*P - 35,000 shares, Q - 20,000 shares, R - 22,500 shares*

*The total subscriptions, excluding firm underwriting, including marked applications were for 1,60,000 shares. Marked applications received were as follows:*

*P - 45,000 shares, Q - 22,500 shares, R - 17,500 shares*

*The underwriting contract provided that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters. The underwriters were entitled to commission @ 5%. You are required to:*

*(i) Compute the underwriter's liability in number of shares.*

*(ii) Compute the amount payable to or due from underwriters.*

*(iii) Pass Journal entries in the books of the company relating to underwriting.*

***(10+10 =20 Marks)***

**Answer**

**(a)**

| *Date* | *Particulars* | | ₹ | ₹ |
|---|---|---|---|---|
| 31.3.2015 | Employees compensation expense A/c | Dr. | 21,30,000 | |
| | To ESOS outstanding A/c | | | 21,30,000 |
| | (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,500 employees at a discount of ₹ 30 each, amortised on straight line basis over vesting years (Refer W.N.) | | | |
| | Profit and Loss A/c | Dr. | 21,30,000 | |
| | To Employees compensation expenses A/c | | | 21,30,000 |
| | (Being expenses transferred to profit and Loss A/c) | | | |
| 31.3.2016 | Employees compensation expenses A/c | Dr. | 5,90,000 | |
| | To ESOS outstanding A/c | | | 5,90,000 |
| | (Being compensation expense recognized in respect of the ESOP- Refer W.N.) | | | |

| | | | | |
|---|---|---|---|---|
| | Profit and Loss A/c | Dr. | 5,90,000 | |
| | To Employees compensation expenses A/c | | | 5,90,000 |
| | (Being expenses transferred to profit and Loss A/c) | | | |
| 31.3.2017 | Employees compensation Expenses A/c | Dr. | 12,40,000 | |
| | To ESOS outstanding A/c | | | 12,40,000 |
| | (Being compensation expense recognized in respect of the ESOP- Refer W.N.) | | | |
| | Profit and Loss A/c | | 12,40,000 | |
| | To Employees compensation expenses A/c | | | 12,40,000 |
| | (Being expenses transferred to profit and Loss A/c) | | | |
| 2018-19 | Bank A/c (1,250 x100 x40) | Dr. | 50,00,000 | |
| | ESOS outstanding A/c [(39,60,000 x 1,25,000/ 1,32,000] | Dr. | 37,50,000 | |
| | To Equity share capital (1250 x 100 x 10) | | | 12,50,000 |
| | To Securities premium A/c [ (1250 x 100 x (70-10)] | | | 75,00,000 |
| | (Being 1,25,000 options exercised at an exercise price of ₹ 40 each) | | | |
| 31.3.2019 | ESOS outstanding A/c | Dr. | 2,10,000 | |
| | To General Reserve A/c | | | 2,10,000 |
| | (Being ESOS outstanding A/c on lapse of 7,000 options at the end of exercise of option period transferred to General Reserve A/c) | | | |

**Working Note:**

**Statement showing compensation expense to be recognized at the end of:**

| Particulars | Year 1 2014-15 | Year 2 2015-16 | Year 3 2016-17 |
|---|---|---|---|
| Number of options expected to vest* | 1,42,000 options | 1,36,000 options | 1,32,000 options |
| Total compensation | ₹ 42,60,000 | ₹ 40,80,000 | ₹ 39,60,000 |

| | | | |
|---|---|---|---|
| expense accrued (70-40) | | | |
| Compensation expense of the year | 42,60,000 x 1/2 = ₹ 21,30,000 | 40,80,000 x 2/3 = ₹ 27,20,000 | ₹ 39,60,000 |
| Compensation expense recognized previously | Nil | ₹ 21,30,000 | ₹ 27,20,000 |
| Compensation expenses to be recognized for the year | ₹ 21,30,000 | ₹ 5,90,000 | ₹ 12,40,000 |

*It is assumed that each share is of ₹ 10 each and Lucky Ltd. expects all the options to be vested after deducting actual lapses during the year.

**(b) (i) Computation of total liability of underwriters in shares**

| | *(In shares)* | | | |
|---|---|---|---|---|
| | P | Q | R | *Total* |
| Gross liability | 1,50,000 | 1,00,000 | 50,000 | 3,00,000 |
| *Less:* Marked applications (excluding firm underwriting) | (45,000) | (22,500) | (17,500) | (85,000) |
| | 1,05,000 | 77,500 | 32,500 | 2,15,000 |
| *Less:* Unmarked applications 75,000 in the ratio of gross liabilities of 3:2:1 (excluding firm underwriting) | (37,500) | (25,000) | (12,500) | (75,000) |
| | 67500 | 52,500 | 20,000 | 1,40,000 |
| *Less*: Firm underwriting | (35,000) | (20,000) | (22,500) | (77,500) |
| | 32,500 | 32,500 | (2,500) | 62,500 |
| *Less*: Surplus of R adjusted in P & Q's in the ratio of gross liabilities of 3:2 | (1,500) | (1,000) | 2,500 | ____ |
| Net liability | 31,000 | 31,500 | Nil | 62,500 |
| *Add*: Firm underwriting | 35,000 | 20,000 | 22,500 | 77,500 |
| Total liability | 66,000 | 51,500 | 22,500 | 1,40,000 |

**(ii) Calculation of amount payable to or due from underwriters**

| | P | Q | R | *Total* |
|---|---|---|---|---|
| Total Liability in shares | 66,000 | 51,500 | 22,500 | 1,40,000 |
| Amount receivable @ ₹ 15 from underwriter (in ₹) | 9,90,000 | 7,72,500 | 3,37,500 | 21,00,000 |

| | | | | |
|---|---|---|---|---|
| *Less*: Underwriting Commission payable @ 5% of ₹ 15 ie issue price (in ₹) | (1,12,500) | (75,000) | (37,500) | (2,25,000) |
| Net amount receivable (in ₹) | 8,77,500 | 6,97,500 | 3,00,000 | 18,75,000 |

**(iii) Journal Entries in the books of the company (relating to underwriting)**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1. | P | Dr. | 9,90,000 | |
| | Q | Dr. | 7,72,500 | |
| | R | Dr. | 3,37,500 | |
| | To Share Capital A/c | | | 14,00,000 |
| | To Securities Premium A/c | | | 7,00,000 |
| | (Being allotment of shares to underwriters) | | | |
| 2. | Underwriting commission A/c | Dr. | 2,25,000 | |
| | To P | | | 1,12,500 |
| | To Q | | | 75,000 |
| | To R | | | 37,500 |
| | (Being amount of underwriting commission payable) | | | |
| 3. | Bank A/c | Dr. | 18,75,000 | |
| | To P | | | 8,77,500 |
| | To Q | | | 6,97,500 |
| | To R | | | 3,00,000 |
| | (Being net amount received by underwriters for shares allotted less underwriting commission)* | | | |

*assuming that the net amount was settled.

**Question 3**

*(a) Virat Ltd. furnishes the following summarized Balance Sheet as at 31st March, 2018:*

| *Particulars* | ₹ | ₹ |
|---|---|---|
| *Equity and Liabilities :* | | |
| *(1) Shareholders Funds:* | | |
| *Share Capital 10,000, 12% Pref. Shares of ₹ 100 each fully paid up* | *10,00,000* | |

| | | | |
|---|---|---|---|
| | *1,00,000 Equity shares of ₹ 10 each fully paid up* | *10,00,000* | |
| | *50,000 Equity shares of ₹ 10 each, ₹ 8 paid up* | *4,00,000* | *24,00,000* |
| *(b)* | *Reserve and Surplus* | | |
| | *Profit & Loss A/c. (Dr. Balance)* | | *(3,50,000)* |
| *(2)* | *Non-current Liabilities:* | | |
| | *12% Debentures* | *15,00,000* | |
| | *Loan on Mortgage* | *4,50,000* | *19,50,000* |
| *(3)* | *Current Liabilities:* | | |
| | *Bank Overdraft* | *2,75,000* | |
| | *Trade Payables* | *7,30,000* | *10,05,000* |
| | *Total* | | *50,05,000* |
| | *Assets:* | | |
| *(1)* | *Non-current Assets:* | | |
| | *Fixed Assets - Land & Buildings* | | *6,00,000* |
| *(2)* | *Current Assets : Sundry Current Assets* | | *44,05,000* |
| | *Total* | | *50,05,000* |

*The mortgage loan was secured against the Land & Buildings. Debentures were secured by a floating charge on all the assets of the company. The debenture holders appointed a Receiver. The company being voluntarily wound up, a liquidator was also appointed. The Receiver was entrusted with the task of realising the Land & Buildings which fetched ₹ 7,50,000 . Receiver also took charge of Sundry current assets of value ₹ 30,00,000 and sold them for ₹ 28,75,000. The Bank overdraft was secured by a personal guarantee of the directors who discharged their obligations in full from personal resources. The costs of the Receiver amounted to ₹ 10,000 and his remuneration ₹ 15,000.*

*The expenses of liquidator was ₹ 17,500 and his remuneration was decided at 2% on the value of the assets realised by him. The remaining assets were realised by liquidator for ₹ 12,50,000. Preference dividend was in arrear for 2 years. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.*

*Prepare the accounts to be submitted by the Receiver and the Liquidator.* ***(10 Marks)***

*(b) The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.*

*(₹ in '000)*

| | *Amount* |
|---|---|
| ***Liabilities***<br>*Equity Shares of ₹ 10 each* | *35,000* |

| | |
|---|---|
| *8%, Cumulative Preference Shares of ₹ 100 each* | *17,500* |
| *6% Debentures of ₹ 100 each* | *14,000* |
| *Sundry Creditors* | *17,500* |
| *Provision for taxation* | *350* |
| *Total* | *84,350* |
| ***Assets*** | |
| *Fixed Assets* | *43,750* |
| *Investments (Market value ₹ 3325 thousand)* | *3,500* |
| *Current Assets (Including Bank Balance)* | *35,000* |
| *Profit and Loss Account* | *2,100* |
| *Total* | *84,350* |

*The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.*

*(i) Investments are to be brought to their market value.*

*(ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.*

*(iii) The balance of Profit and Loss Account to be written off.*

*(iv) All the existing equity shares are reduced to ₹ 4 each.*

*(v) All preference shares are reduced to ₹ 60 each.*

*(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.*

*(vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.*

*(viii) Fixed Assets are written down to 80%.*

*(ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.*

*Pass journal entries for the above transactions.* ***(10 Marks)***

**Answer**

**(a) Receiver's Receipts and Payments Account**

| | ₹ | | ₹ |
|---|---|---|---|
| Sundry Assets realized | 28,75,000 | Costs of the Receiver | 10,000 |
| Surplus received from | | Remuneration to Receiver | 15,000 |

| | | | |
|---|---|---|---|
| Mortgage | | Debentures holders | |
| Sale Proceeds of land and building 7,50,000 | | Principal* | 15,00,000 |
| *Less*: Applied to | | Surplus transferred | |
| Discharge | | to the Liquidator | 16,50,000 |
| of mortgage loan (4,50,000) | 3,00,000 | | |
| | 31,75,000 | | 31,75,000 |

**Note :** * Assumed that interest on debentures has already been paid before winding up proceedings.

**Liquidator's Final Statement of Account**

| | ₹ | | ₹ |
|---|---|---|---|
| Surplus received from | | Cost of Liquidation (legal exp.) | 17,500 |
| Receiver | 16,50,000 | Remuneration to Liquidator | 25,000 |
| Assets Realized | 12,50,000 | (12,50,000 x 2%) | |
| Calls on partly paid Shareholders: | | Unsecured Creditors: | |
| | | for Trade | 7,30,000 |
| | | Directors for payment of Bank O/D | 2,75,000 |
| | | Preferential Shareholders: | |
| | | Capital | 10,00,000 |
| | | Arrears of Preference Dividends | 2,40,000 |
| | | Equity shareholders: | |
| | | Return of money to contributors | |
| | | to holders | |
| | | 1,00,000 shares at ₹ 4.75 | 4,75,000 |
| | | 50,000 shares at ₹ 2.75 | 1,37,500 |
| | 29,00,000 | | 29,00,000 |

**Working Note :**

| | |
|---|---|
| Amount to be paid or received from Equity shareholders | ₹ |
| Total Equity share capital paid up | 14,00,000 |
| Less: Surplus before call from Equity Shares (29,00,000 — 22,87,500) | (6,12,500) |
| Loss to be borne by 1,50,000 shares | 7,87,500 |
| Loss per share = (7,87,500/ 1,50,000 shares) | 5.25 |

| | |
|---|---|
| Hence, Refund to Equity shareholders of 1,00,000 shares of ₹ 10 fully paid up | 4.75 |
| Refund to Equity shareholders of 50,000 shares of ₹ 8 paid up | 2.75 |

**(b) Journal Entries in the books of SK Ltd.**

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

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

**Working Note:**

**Capital Reduction Account**

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

**Question 4**

*(a)* *On 31st March, 2018 the books of Nutan Insurance Company Limited contained the following particulars in respect of marine insurance business:*

| | *Direct Business (₹)* | *Re-insurance (₹)* |
|---|---|---|
| *Premium:* | | |
| *Received* | *35,50,000* | *3,75,000* |
| *Receivable - 1.4.2017* | *2,14,500* | *18,700* |
| *Receivable - 31.3.2018* | *1,80,000* | *15,500* |
| *Paid* | | *3,00,500* |

| | | |
|---|---|---|
| *Payable - 1.4.2017* | | *10,400* |
| *Payable - 31.3.2018* | | *15,200* |
| *Claims:* | | |
| *Paid* | *25,10,000* | *2,70,800* |
| *Payable - 1.4.2017* | *42,500* | *15,000* |
| *Payable - 31.3.2018* | *45,800* | *17,500* |
| *Received* | | *2,17,000* |
| *Receivable - 1.4.2017* | | *18,500* |
| *Receivable - 31.3.2018* | | *19,200* |
| *Commission:* | | |
| *Paid* | *75,800* | *11,600* |
| *Received* | | *12,400* |

*Other Expenses and Income*

| | ₹ |
|---|---|
| *Salaries* | *3,75,000* |
| *Rent rates and taxes* | *1,21,000* |
| *Printing and Stationary* | *24,800* |
| *Legal expenses (Inclusive of ₹ 18,000 for settlement of claims)* | *50,000* |
| *Interest, Dividend & Rent received (net)* | *1,12,500* |
| *Income tax deducted at source in respect of above* | *12,500* |
| *Bad Debts* | *5,800* |

*Balance of fund as on 1-4-2017 was ₹ 38,50,000 including Additional Reserve for ₹ 3,60,000. Provision for Unexpired Risk to be created @100% and Additional Reserve has to be maintained at 5% of net premium of the year.*

*Prepare the Revenue Account for the year ended 31st March, 2018.* ***(10 Marks)***

*(b) While closing its books of accounts on 31st March 2018, a Non-Banking Finance Company has its advances classified as follows:*

| | ₹ *(in lakhs)* |
|---|---|
| *Standard assets* | *18,400* |
| *Sub-standard assets* | *1,250* |
| *Secured Portion of doubtful debts:* | |
| *Upto one year* | *300* |

| | |
|---|---|
| *One year to three years* | *90* |
| *More than three years* | *30* |
| *Unsecured portions of doubtful debts* | *92* |
| *Loss assets* | *47* |

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

*(i) The Non-banking Financial Company - Non-systematically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016; and*

*(ii) Non-banking Financial Company - Systematically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016.* ***(10 Marks)***

**Answer**

**(a) Form B – RA (Prescribed by IRDA)**

**Revenue Account for the year ended 31st March, 2018**

**(Marine Insurance Business)**

| | *Schedule* | *Current Year* |
|---|---|---|
| | | ₹ |
| Premiums earned (net) | 1 | 36,70,900 |
| Profit/(Loss) on sale/redemption of investments | | - |
| Others (to be specified) | | - |
| Interest, Dividends and Rent – Gross (Net + TDS) (1,12,500 +12,500) | | 1,25,000 |
| Total (A) | | 37,95,900 |
| Claims incurred (net) | 2 | 25,86,900 |
| Commission | 3 | 75,000 |
| Operating expenses related to Insurance business | 4 | 5,52,800 |
| Total (B) | | 32,14,700 |
| Operating Profit from Marine Insurance business (A-B) | | **5,81,200** |

**Schedules forming part of Revenue Account**

| | | Current Year |
|---|---|---|
| | | |
| **Schedule –1** | | |
| Premium earned | | |
| On direct business | 35,15,500 | |
| On Reinsurance business | 3,71,800 | |

| | |
|---|---|
| Total Premiums earned | 38,87,300 |
| Less: Premium on reinsurance ceded | (3,05,300) |
| Total Premium earned (net) | 35,82,000 |
| Change in provision for unexpired risk (Required provision – Existing reserve) [(35,82,000 + 5% of 35,82,000 i.e. 37,61,100) – 38,50,000)] | 88,900 |
| Net Premium earned | 36,70,900 |
| **Schedule – 2** | |
| Claims incurred | |
| Claims paid( including legal expenses) | 25,81,800 |
| Add: Claims outstanding at the end of the year | 44,100 |
| Less: Claims outstanding at the beginning of the year | (39,000) |
| | 25,86,900 |
| **Schedule – 3** | |
| Commission paid | |
| Direct | 75,800 |
| Add: Re-insurance accepted | 11,600 |
| Less: reinsurance ceded | (12,400) |
| | 75,000 |
| **Schedule – 4** | |
| Operating expenses related to insurance business* | |
| Employees' remuneration and welfare benefits | 3,75,000 |
| Rent, Rates and Taxes | 1,21,000 |
| Printing and Stationery | 24,800 |
| Legal and Professional charges | 32,000 |
| | 5,52,800 |

*Assumed to be related with Marine insurance business.

**Working Notes:**

| 1. | Total Premium Income | *Direct* | *Re-insurance* |
|---|---|---|---|
| | Received | 35,50,000 | 3,75,000 |
| | *Add:* Receivable on 31st March, 2018 | 1,80,000 | 15,500 |
| | | 37,30,000 | 3,90,500 |
| | *Less:* Receivable on 1st April, 2017 | (2,14,500) | (18,700) |
| | | **35,15,500** | **3,71,800** |

| | | | |
|---|---|---|---|
| 2. | Premium Expense on reinsurance | | |
| | Premium Paid during the year | 3,00,500 | |
| | *Add:* Payable on 31st March, 2018 | 15,200 | |
| | | 3,15,700 | |
| | *Less:* Payable on 1st April, 2017 | (10,400) | |
| | | 3,05,300 | |
| 3. | **Claims Paid** | | |
| | Direct Business | 25,10,000 | |
| | Re-insurance | 2,70,800 | |
| | Legal Expenses | 18,000 | |
| | | 27,98,800 | |
| | *Less:* Re-insurance claims received | (2,17,000) | |
| | | 25,81,800 | |
| **4.** | **Claims outstanding as on 31st March, 2018** | | |
| | Direct | 45,800 | |
| | Re-insurance | 17,500 | |
| | | 63,300 | |
| | *Less:* Recoverable from Re-insurers on 31st March, 2018 | (19,200) | |
| | | 44,100 | |
| 5. | **Claims outstanding as on 1st April, 2017** | | |
| | Direct | 42,500 | |
| | Re-insurance | 15,000 | |
| | | 57,500 | |
| | *Less:* Recoverable from Re-insurers on 1st April, 2017 | (18,500) | |
| | | 39,000 | |

**(b) Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016**

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 18,400 | 0.25 | 46.00 |

| | | | |
|---|---|---|---|
| Sub-standard assets | 1,250 | 10 | 125.00 |
| Secured portions of doubtful debts– | | | |
| – upto one year | 300 | 20 | 60.00 |
| – one year to three years | 90 | 30 | 27.00 |
| – more than three years | 30 | 50 | 15.00 |
| Unsecured portions of doubtful debts | 92 | 100 | 92.00 |
| Loss assets | 47 | 100 | 47.00 |
| | | | 412.00 |

Calculation of provision required on advances as on 31st March, 2018 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

| | *Amount ₹ in lakhs* | *Percentage of provision* | *Provision ₹ in lakhs* |
|---|---|---|---|
| Standard assets | 18,400 | 0.40* | 73.60 |
| Sub-standard assets | 1,250 | 10 | 125.00 |
| Secured portions of doubtful debts– | | | |
| – upto one year | 300 | 20 | 60.00 |
| – one year to three years | 90 | 30 | 27.00 |
| – more than three years | 30 | 50 | 15.00 |
| Unsecured portions of doubtful debts | 92 | 100 | 92.00 |
| Loss assets | 47 | 100 | 47.00 |
| | | | 439.60 |

***Note:** For the year ending on 31st March, 2018, the provision rate for standard assets is 0.40%.

**Question 5**

*(a) The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below :*

*₹ in Lakhs*

| *Incomes* | *A Ltd.* | *B Ltd.* |
|---|---|---|
| *Sales and other income* | *7,500* | *1,500* |
| *Increase in Inventory* | *1,500* | *300* |
| *Total* | *9,000* | *1,800* |

| | | |
|---|---|---|
| Expenses | | |
| Raw material consumed | 1,200 | 300 |
| Wages and Salaries | 1,200 | 225 |
| Production expenses | 300 | 150 |
| Administrative expenses | 300 | 150 |
| Selling and distribution expenses | 300 | 75 |
| Interest | 150 | 75 |
| Depreciation | 150 | 75 |
| Total | 3,600 | 1,050 |
| Profit before tax | 5,400 | 750 |
| Provision for tax | 1,800 | 300 |
| Profit after tax | 3,600 | 450 |
| Dividend paid | 1,800 | 225 |
| Balance of Profit | 1,800 | 225 |

*The following information is also given:*

*(i) A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)*

*(ii) Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees.*

*(iii) Selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.*

*(iv) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is ₹1,500 Lakhs*

*Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.*

***(10 Marks)***

*(b) The Balance sheet of Rupal Ltd. for the year ended 31st March, 2016, 2017 and 2018 are as under:*

| Liabilities | (₹ In lakhs) | | |
|---|---|---|---|
| | 31.3.2016 | 31.3.2017 | 31.3.2018 |
| Share Capital: 160 lakhs Equity shares of Rs 10 each (Fully paid up) | 3,500 | 3,500 | 3,500 |
| General reserve | 1,200 | 1,480 | 1,650 |
| Profit & Loss A/c | 415 | 565 | 675 |

| | | | |
|---|---|---|---|
| *Secured Loans:* | | | |
| *12% Debentures* | *75* | *75* | *75* |
| *Term Loan* | *250* | *230* | *210* |
| *Trade Payables* | *630* | *738* | *850* |
| | *6,070* | *6,588* | *6,960* |
| *Assets* | | | |
| *Land & Building* | *1,200* | *1,320* | *1,450* |
| *Plant & machinery* | *2,750* | *2,630* | *2,580* |
| *Inventory* | *1,210* | *1,520* | *1,830* |
| *Trade Receivables* | *760* | *950* | *1,055* |
| *Cash at bank* | *150* | *168* | *45* |
| | *6,070* | *6,588* | *6,960* |

*Additional information:*

*(i) Actual valuations were shown as under:*

| | *(₹ in lakhs)* | | |
|---|---|---|---|
| | *2016* | *2017* | *2018* |
| *Land & Building* | *1,450* | *1,580* | *1,750* |
| *Plant & machinery* | *2,650* | *2,520* | *2,380* |
| *Inventory* | *1,520* | *1,830* | *2,140* |
| *Net profit (including opening balance after writing off depreciation, tax provision and transfer to General reserve)* | *1,325* | *1,550* | *1,660* |

*(ii) On 1st April, 2015, balance in the General reserve and Profit & Loss A/c was ₹ 1,000 lakhs and ₹ 350 lakhs respectively. Capital employed in the business at market value at the beginning of 2015-16 was ₹ 5,185 lakhs.*

*(iii) The normal annual return on average capital employed in the same line of business is 10%.*

*Find out the average capital employed in each year and value of goodwill at 4 year's purchase of Super profits (simple average method).* ***(10 Marks)***

**Answer**

**(a) Consolidated Profit & Loss Account of A Ltd. and its subsidiary B Ltd. for the year ended on 31st March, 2018**

| *Particulars* | | *Note No.* | *₹ in Lacs* |
|---|---|---|---|
| I. | Revenue from operations | 1 | 8,797 |
| II. | Total revenue | | 8,797 |
| III. | Expenses | | |
| | Cost of Material purchased/Consumed | 3 | 1,770 |
| | Changes of Inventories of finished goods | 2 | (1,794) |
| | Employee benefit expense | 4 | 1,425 |
| | Finance cost | 6 | 225 |
| | Depreciation and amortization expense | 7 | 225 |
| | Other expenses | 5 | 802 |
| | Total expenses | | 2,653 |
| IV. | Profit before Tax(II-III) | | 6,144 |
| V. | Tax Expenses | 8 | 2,100 |
| VI. | Profit After Tax | | 4,044 |

**Notes to Accounts**

| | | *₹ in Lacs* | *₹ in Lacs* |
|---|---|---|---|
| 1. | Revenue from Operations | | |
| | Sales and other income | | |
| | A Ltd. | 7,500 | |
| | B Ltd. | 1,500 | |
| | | 9,000 | |
| | *Less:* Inter-company Sales | (180) | |
| | Consultancy fees received by A Ltd. from B Ltd. | (8) | |
| | Commission received by B Ltd. from A Ltd. | (15) | 8,797 |
| 2. | Increase in Inventory | | |
| | A Ltd. | 1,500 | |
| | B Ltd. | 300 | |
| | | 1,800 | |

| | | | |
|---|---|---|---|
| | *Less:* Unrealised profits ₹ 180×1/6 x 25/125 | (6) | 1,794 |
| 3. | Cost of Material purchased/consumed | | |
| | A Ltd. | 1,200 | |
| | BLtd. | 300 | |
| | | 1,500 | |
| | *Less*: Purchases by B Ltd. from A Ltd. | (180) | 1,320 |
| | Direct Expenses | | |
| | A Ltd. | 300 | |
| | BLtd. | 150 | 450 |
| | | | 1,770 |
| 4. | Employee benefits and expenses | | |
| | Wages and Salaries: | | |
| | A Ltd. | 1,200 | |
| | B Ltd. | 225 | 1,425 |
| 5. | Other Expenses | | |
| | Administrative Expenses | | |
| | A Ltd. | 300 | |
| | B Ltd. | 150 | |
| | | 450 | |
| | *Less*: Consultancy fees received by A Ltd. from BLtd. | (8) | 442 |
| | Selling and Distribution Expenses: | | |
| | A Ltd. | 300 | |
| | B Ltd. | 75 | |
| | | 375 | |
| | *Less*: Commission received from B Ltd. from A Ltd. | (15) | 360 |
| | | | 802 |
| 6. | Finance Cost | | |
| | Interest: | | |
| | A Ltd. | 150 | |
| | B Ltd. | 75 | 225 |
| 7. | Depreciation and Amortisation | | |

| | | | |
|---|---|---|---|
| | Depreciation: | | |
| | A Ltd. | 150 | |
| | B Ltd. | 75 | 225 |
| 8. | Provision for tax | | |
| | A Ltd. | 1800 | |
| | B Ltd. | 300 | 2100 |

**Note:** it is assumed that dividend adjustment has not be done in sales & other income of A Ltd i.e. dividend received from B Ltd is not included in other income of A Ltd. Alternative answer is possible considering is otherwise.

**(b) Capital Employed at the end of each year** **(₹ In lakhs)**

| | *31.3.2016* ₹ | *31.3.2017* ₹ | *31.3.2018* ₹ |
|---|---|---|---|
| Land &Building (Revalued) | 1,450 | 1,580 | 1,750 |
| Plant & machinery | 2,650 | 2,520 | 2,380 |
| Inventory (Revalued) | 1,520 | 1,830 | 2,140 |
| Trade Receivables | 760 | 950 | 1,055 |
| Cash at Bank | 150 | 168 | 45 |
| Total Assets | 6,530 | 7,048 | 7,370 |
| *Less:* Trade Payables | (630) | (738) | (850) |
| Term loan | (250) | (230) | (210) |
| 12% debentures | (75) | (75) | (75) |
| Closing Capital employed | 5,575 | 6,005 | 6,235 |
| *Add*: Opening Capital employed | 5,185 | 5,575 | 6,005 |
| Total | 10,760 | 11,580 | 12,240 |
| Average Capital employed | 5,380 | 5,790 | 6,120 |

**Valuation of Goodwill** **(₹ In lakhs)**

| | | 31.3.2016 | 31.3.2017 | 31.3.2018 |
|---|---|---|---|---|
| (i) | Future Maintainable Profit | | | |
| | Net Profit as given | 1,325 | 1,550 | 1,660 |
| | *Less*: Opening Balance | (350) | (415) | (565) |
| | Adjustment for Valuation of Opening Inventory | | (310) | (310) |
| | *Add*: Adjustment for Valuation of closing inventory | 310 | 310 | 310 |

| | | | | |
|---|---|---|---|---|
| | Transferred to General Reserve | 200 | 280 | 170 |
| | Future Maintainable Profit | 1,485 | 1,415 | 1265 |
| | *Less*: 10% Normal Return on Avg. Capital Employed | 538 | 579 | 612 |
| (ii) | Super Profit | 947 | 836 | 653 |

(i) **Average Super Profit =** ₹ (947+836+653)÷3 = ₹ 812 Lakh

(ii) **Value of Goodwill** at four years' purchase= ₹ 812 lakh × 4 = ₹ 3248 lakh

**Question 6**

*Answer any **four** of the following:*

(a) *Equity capital is held by L, M, N and O in the proportion of 30:40:20:10. A, B, C and D hold Preference share capital in the proportion of 40:30:10:20. If the paid up Equity Share capital of the company is ₹ 60 lakhs and Preference share capital is ₹ 30 lakhs, find the voting rights of shareholders (in percentage) in case of resolution of winding up of the company.*

(b) *What are the initial disclosure requirements of AS 24 for discontinuing operations?*

(c) *A Mutual Fund raised funds on 1st April, 2018 by issuing 10 lakhs units @ ₹ 20 per unit. Out of this Fund, ₹ 180 lakhs invested in several capital market securities. The initial expenses amount to ₹ 9 lakhs. During June, 2018, the fund sold certain securities of cost ₹ 140 lakhs for ₹ 175 lakhs and it bought certain securities for ₹ 125 lakhs. The Fund Management expenses amounted to ₹ 5 lakhs per month and ₹ 0.75 lakh was in arrear. The dividend earned was ₹ 4.50 lakhs 80% of the realized earnings were distributed among the unit holders. The market value of the portfolio was ₹ 225 lakhs. Determine the Net Asset Value (NAV) per unit as on 30th June, 2018.*

(d) *Forward Bank Ltd furnishes the following information as on 31st March, 2018.*

| | *Amount in ₹* |
|---|---|
| *Bills Discounted* | *82,23,000* |
| *Rebate on bills discounted as on 1st April, 2017* | *1,32,960* |
| *Discount received* | *6,33,990* |

*Details of bills discounted is as given below:*

| *Value of Bills (₹)* | *Due Date* | *Rate of Discount* |
|---|---|---|
| *10,95,000* | *15th June, 2018* | *14%* |
| *30,00,000* | *25th June, 2018* | *12%* |
| *16,92,000* | *5th July, 2018* | *16%* |
| *24,36,000* | *15th July, 2018* | *16%* |

*(i) Calculate the rebate on bills discounted as on 31st March, 2018.*

*(ii) Pass necessary Journal Entries.*

*(e) Mutual fund has launched a new scheme "All Purpose Scheme". The Mutual Fund Asset Management Company wishes to Invest 25% of the NAV of the scheme in an unrated debt instrument of a company Zed Ltd., which has been paying above average returns for the past many years. The promoters of the company seek advice in light of the regulations of SEBI. Will the position change in case the debt instruments of the company Zed Ltd. are rated.* ***(4 x 5 = 20 Marks)***

**Answer**

**(a)** L, M, N and O hold Equity capital is held by in the proportion of 30:40:20:10 and A, B, C and D hold preference share capital in the proportion of 40:30:10:20. As the paid up equity share capital of the company is ₹60 Lakhs and Preference share capital is ₹ 30 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3.

The respective voting right of various shareholders will be

| | | | | |
|---|---|---|---|---|
| L | = | 2/3X30/100 | = | 3/15 = 20% |
| M | = | 2/3X40/100 | = | 4/15 = 26.67% |
| N | = | 2/3X20/100 | = | 2/15 = 13.33% |
| O | = | 2/3X10/100 | = | 1/15 = 6.67% |
| A | = | 1/3X40/100 | = | 4/30 = 13.33% |
| B | = | 1/3X30/100 | = | 3/30 = 10% |
| C | = | 1/3X10/100 | = | 1/30 = 3.33% |
| D | = | 1/3X20/100 | = | 2/30 = 6.67% |

**(b)** An enterprise should include the following information relating to a discontinuing operation in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs:

A. A description of the discontinuing operation(s)

B. The business or geographical segment(s) in which it is reported as per AS 17

C. The date and nature of the initial disclosure event.

D. The date or period in which the discontinuance is expected to be completed if known or determinable

E. The carrying amounts, as of the balance sheet date, of the total assets to be disposed of and the total liabilities to be settled

F. The amounts of revenue and expenses in respect of the ordinary activities attributable to the discontinuing operation during the current financial reporting period

G. The amount of pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense related thereto

H. The amounts of net cash flows attributable to the operating, investing, and financing activities of the discontinuing operation during the current financial reporting period

**(c)**

| | ₹ in lakhs | ₹ in lakhs |
|---|---|---|
| Opening bank balance [₹ (200 – 180 - 9) lakhs] | 11 | |
| *Add*: Proceeds from sale of securities | 175 | |
| Dividend received | 4.50 | |
| | | 190.5 |
| *Less*: Cost of securities | 125 | |
| Fund management expenses [₹ (15–0.75) lakhs] | 14.25 | |
| Capital gains distributed [80% of ₹ (175 – 140) lakhs] | 28 | |
| Dividends distributed (80% of ₹ 4.5 lakhs) | 3.6 | |
| | | (170.85) |
| Closing bank balance | | 19.65 |
| Closing market value of portfolio | | 225 |
| | | 244.65 |
| *Less*: Arrears of expenses | | (0.75) |
| Closing net assets(A) | | 243.9 |
| Number of units (B) | | 10,00,000 |
| Closing Net Assets Value (NAV) per unit (A/B) | | **₹ 24.39** |

**(d)** In order to determine the amount to be credited to the Profit and Loss A/c it is necessary to first ascertain the amount attributable to the unexpired portion of the period of the respective bills. The workings are as given below:

| Value (₹) | Due Date | Days after 31-03-2018 | Discount % | Discount Amount ₹ |
|---|---|---|---|---|
| 10,95,000 | 15-06-2018 | (30+31 + 15) = 76 | 14% | 31,920 |
| 30,00,000 | 25-06-2018 | (30 + 31 + 25) = 86 | 12% | 84,822 |
| 16,92,000 | 05-07-2018 | (30 + 31 + 30 + 5) = 96 | 16% | 71,203 |
| 24,36,000 | 15-07-2018 | (30 + 31 + 30 + 15) = 106 | 16% | 1,13,191* |
| | | Rebate on bills discounted as on 31.3.2018 | | 3,01,136 |

**The journal entries will be as follows :**

| | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| Rebate on Bills Discounted A/c | Dr. | 1,32,960 | |
| To Discount on Bills A/c | | | 1,32,960 |
| (Being the transfer of Rebate on Bills Discounted on 1.4.2017 to Discount on Bills Account) | | | |
| Discount on Bills A/c | Dr. | 3,01,136 | |
| To Rebate on Bills Discounted A/c | | | 3,01,136 |
| (Being the transfer of rebate on bills discounted required on 1.4.2018 from discount on Bills Account) | | | |
| Discount on Bills A/c | Dr. | 4,65,814 | |
| To Profit and Loss A/c | | | 4,65,814 |
| (Being the amount of discount on Bills transferred to Profit and Loss Account) | | | |

**Working Note:**

The amount of discount to be credited to the Profit and Loss Account will be:

| | ₹ |
|---|---|
| Transfer from Rebate on bills discount as on 1.4.17 | 1,32,960 |
| *Add:* Discount received during the year ended 31-3-2018 | 6,33,990 |
| | 7,66,950 |
| *Less:* Rebate on bills discounted as on 31.3.2018 | (3,01,136) |
| | 4,65,814 |

**(e)** The Seventh Schedule of SEBI (Mutual funds) Regulations, 1996 states that a mutual fund scheme shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of Asset Management Company.

It also states that a mutual fund scheme shall not invest more than 10% of its NAV in debt instruments issued by a single issuer which are rated not below investment grade by an authorized credit rating agency. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of Asset Management Company.

Accordingly, if the debts instruments of Zed Ltd. are unrated then Mutual Fund Asset Management Company (AMC) cannot invest more than 10% of its NAV in those instruments. If the debts instruments of Zed Ltd. are rated, even then, Mutual Fund Asset Management Company cannot invest more than 12% of its NAV in those instruments. Therefore, investment of 25% of its NAV of the scheme in debts instrument of Zed Ltd. by Mutual Fund Asset Management Company is not permissible as per the SEBI (Mutual Fund) Regulations, 1996.