## 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) *Rajendra undertook a contract ₹ 20,00,000 on an arrangement that 80% of the value of work done, as certified by the architect of the contractee should be paid immediately and that the remaining 20% be retained until the Contract was completed.*

*In Year 1, the amounts expended were ₹ 8,60,000, the work was certified for ₹ 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the Contract would be ₹ 10,00,000.*

*In Year 2, the amounts expended were ₹4,75,000. Three-fourth of the work under contract was certified as done by December 31st and 80% of this was received accordingly. It was estimated that future expenditure to complete the Contract would be ₹ 4,00,000.*

*In Year 3, the amounts expended were ₹ 3,10,000 and on June 30th, the whole Contract was completed.*

*Show how Contract revenue would be recognized in the P & L A/c of Mr. Rajendra each year.*

(b) *Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under:*

| *Year* | *1* | *2* | *3* | *4* | *5* |
|---|---|---|---|---|---|
| *Cash Flows (₹ in lacs)* | *300* | *300* | *300* | *150* | *150* |

*After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.*

(c) *The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:*

*(₹ in Lacs)*

| *Division* | *A* | *B* | *C* | *D* | *Total* |
|---|---|---|---|---|---|
| *Segment Revenue* | *100* | *300* | *200* | *400* | *1,000* |
| *Segment Result* | *45* | *-70* | *80* | *-10* | *45* |
| *Segment Assets* | *39* | *51* | *48* | *12* | *150* |

*You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.*

(d) *From the following details of Aditya Limited for accounting year ended on 31st March, 2020:*

| *Particulars* | *₹* |
|---|---|
| *Accounting profit* | *15,00,000* |
| *Book profit as per MAT* | *7,50,000* |
| *Profit as per Income tax Act* | *2,50,000* |
| *Tax Rate* | *20%* |
| *MAT Rate* | *7.5%* |

*Calculate the deferred tax asset/liability as per AS 22 and amount of tax to be debited to the profit and loss account for the year.* ***(4 Parts X 5 Marks = 20 Marks)***

**Answer**

**(a) Year 1**

| | ₹ |
|---|---|
| Actual expenditure | 8,60,000 |
| Future estimated expenditure | 10,00,000 |
| Total Expenditure | 18,60,000 |

% of work completed = $\frac{8,60,000}{18,60,000}$ x 100 = 46.24% (rounded off)

Revenue to be recognized = 20,00,000 x 46.24%

= ₹ 9,24,800

**Year 2**

Actual expenditure 4,75,000

| | |
|---|---|
| Future Expenditure | 4,00,000 |
| Expenditure incurred in Year 1 | 8,60,000 |
| | 17,35,000 |

% of work completed $= \frac{4,75,000 + 8,60,000}{17,35,000}$ = 76.95% (rounded off)

Revenue to be recognized (cumulative) = 20,00,000 x 76.95%

= 15,39,000

Less: revenue recognized in Year 1 = ( 9,24,800)

Revenue to be recognized in Year 2 ₹ 6,14,200

**Year 3**

Whole contract got completed therefore total contract value less revenue recognized up to year 2 will be amount of revenue to be recognized in year 3 i.e. 20,00,000 – 15,39,000 (9,24,800 + 6,14,200) = ₹ 4,61,000.

*Note: Calendar year has been considered as accounting year.*

**(b) Amortization of cost of patent as per AS 26**

| Year | Estimated future cash flow (₹ in lakhs) | Amortization Ratio | Amortized Amount (₹ in lakhs) |
|---|---|---|---|
| 1 | 300 | .25 | 150 |
| 2 | 300 | .25 | 150 |
| 3 | 300 | .25 | 150 |
| 4 | 150 | .10 | 60 |
| 5 | 150 | .10 | 60 |
| 6 | 75 | .05 | 30 |
| | | 1.00 | 600 |

In the first three years, the patent cost will be amortized in the ratio of estimated future cash flows i.e. (300: 300: 300: 150: 150).The unamortized amount of the patent after third year will be ₹ 150 lakh (600-450) which will be amortized in the ratio of revised estimated future cash flows (150:150:75 or 2:2:1) in the fourth, fifth and sixth year.

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

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

Its segment result whether profit or loss is 10% or more of:

- The combined result of all segments in profit; or
- The combined result of all segments in loss,

whichever is greater in absolute amount; or

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

On the basis of revenue criteria, segments A, B, C and D - all are reportable segments.

On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).

On the basis of asset criteria, all segments except D are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with Accounting Standard (AS) 17.

**(d)** Tax as per accounting profit 15,00,000×20% = ₹ 3,00,000

Tax as per Income-tax Profit 2,50,000×20% =₹ 50,000

Tax as per MAT 7,50,000×7.50% = ₹ 56,250

Tax expense= Current Tax +Deferred Tax

₹ 3,00,000 = ₹ 50,000+ Deferred tax

Therefore, Deferred Tax liability as on 31-03-2020

= ₹ 3,00,000 – ₹ 50,000 = ₹ 2,50,000

Amount of tax to be debited in Profit and Loss account for the year 31-03-2020

Current Tax + Deferred Tax liability + Excess of MAT over current tax

= ₹ 50,000 + ₹ 2,50,000 + ₹ 6,250 (56,250 – 50,000) = ₹ 3,06,250

**Question 2**

*(a) H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:*

| *Particulars* | *H Ltd. (₹)* | *S Ltd. (₹)* |
|---|---|---|
| *Equities and Liabilities:* | | |
| *Equity Share Capital: Shares of ₹ 10 each* | *20,00,000* | *8,00,000* |
| *General Reserve (1st April, 2019)* | *9,60,000* | *4,20,000* |
| *Profit & Loss Account* | *2,28,800* | *3,28,000* |
| *Preliminary Expenses (1st April, 2019)* | *-* | *(20,000)* |
| *Bank Overdraft* | *3,00,000* | *-* |

| | | |
|---|---|---|
| *Bills Payable* | - | 52,000 |
| *Trade Payables* | 1,66,400 | 80,000 |
| *Total* | 36,55,200 | 16,60,000 |
| *Assets:* | | |
| *Land and Building* | 7,20,000 | 7,60,000 |
| *Plant & Machinery* | 9,60,000 | 5,40,000 |
| *Investment in Equity Shares of S Ltd.* | 12,27,200 | - |
| *Inventories* | 4,56,000 | 1,68,000 |
| *Trade Receivables* | 1,76,000 | 1,60,000 |
| *Bills Receivable* | 59,200 | - |
| *Cash in Hand* | 56,800 | 32,000 |
| *Total* | 36,55,200 | 16,60,000 |

*Additional Information:*

*(1) The Profit & Loss Account of S Ltd. showed credit balance of ₹ 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.*

*(2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.*

*Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.*

*(b) PGL Finance Ltd. is a non-banking financial company. The following information is provided by the company regarding its outstanding amounts: ₹ 600 Lakhs, of which instalments are overdue on 300 accounts for last two months (amount overdue ₹ 150 Lakhs), on 48 accounts for three months (amount overdue ₹ 64 Lakhs), on 20 accounts for more than 30 months (amount overdue ₹ 120 Lakhs) and in 4 accounts for more than three years (amount overdue ₹ 60 Lakhs - already identified as sub-standard asset) and one account of ₹ 40 Lakhs which has been identified as non-recoverable by the management. Out of 20 accounts overdue for more than 30 months, 16 accounts are already identified as sub-standard (amount ₹ 28 Lakhs) for more than fourteen months and others are identified as sub-standard asset for a period of less than fourteen months.*

*Classify the assets of the company in line with Non-Banking Financial Company-Systematically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.* ***(15+5 = 20 Marks)***

**Answer**

**(a) Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd. as at 31st March, 2020**

| Particulars | Note No. | (₹) |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 20,00,000 |
| (b) Reserves and Surplus | 2 | 13,07,200 |
| (2) Minority Interest (W.N 4) | | 2,96,400 |
| (3) Current Liabilities | | |
| (a) Trade Payables | 3 | 2,98,400 |
| (b) Short term borrowings | | 3,00,000 |
| Total | | 42,02,000 |
| II. Assets | | |
| (1) Non-current assets | | |
| (i) Property, Plant and Equipment | 4 | 29,34,000 |
| (ii) Intangible assets (W.N.5) | | 1,60,000 |
| (2) Current assets | | |
| (a) Inventories | 5 | 6,24,000 |
| (b) Trade receivables | 6 | 3,95,200 |
| (c) Cash & Cash equivalents (Cash) | 7 | 88,800 |
| Total | | 42,02,000 |

**Notes to Accounts**

| | | | ₹ | ₹ |
|---|---|---|---|---|
| 1. | Share Capital | | | |
| | 2,00,000 equity shares of ₹ 10 each | | | 20,00,000 |
| 2. | Reserves and Surplus | | | |
| | Reserves | | 9,60,000 | |
| | Profit & loss | | | |
| | H Ltd. | 2,28,800 | | |
| | S Ltd. (As per W.N. 3) | 1,18,400 | 3,47,200 | 13,07,200 |

| | | | | |
|---|---|---|---|---|
| 3. | Trade Payables | | | |
| | H Ltd. | | 1,66,400 | |
| | S Ltd. (80,000+52,000) | | 1,32,000 | 2,98,400 |
| 4. | Property, Plant and Equipment | | | |
| | Land and building | | | |
| | H Ltd. | 7,20,000 | | |
| | S Ltd. | 7,60,000 | 14,80,000 | |
| | Plant & Machinery | | | |
| | H Ltd. | 9,60,000 | | |
| | S Ltd. (As per W.N. 7) | 4,94,000 | 14,54,000 | 29,34,000 |
| 5. | Inventories | | | |
| | H Ltd. | | 4,56,000 | |
| | S Ltd. | | 1,68,000 | 6,24,000 |
| 6. | Trade Receivables | | | |
| | H Ltd. | 1,76,000 | | |
| | S Ltd. | 1,60,000 | 3,36,000 | |
| | Bills receivable: H Ltd. | | 59,200 | 3,95,200 |
| 7. | Cash & Cash equivalents | | | |
| | Cash | | | |
| | H Ltd. | | 56,800 | |
| | S Ltd. | | 32,000 | 88,800 |

**Working Notes:**

1. **Share holding pattern**

Total Shares of S Ltd 80,000 shares

Shares held by H Ltd 64,000 shares i.e. 80 %;

Minority Shareholding 16,000 shares i.e. 20 %

2. **Capital profits of S Ltd.**

| | ₹ | ₹ |
|---|---|---|
| Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1st October, 2019 is same as of 31st March 2020) | | 4,20,000 |
| Profit & Loss Account Balance on 1st April, 2019 | 1,20,000 | |
| *Less:* Dividend paid | (80,000) | 40,000 |
| Profit for year: | | |

| | | |
|---|---|---|
| Total ₹ 3,28,000<br>Less: ₹ 40,000 (opening balance)<br>₹ 2,88,000 | | |
| Proportionate up to 1st October, 2019 on time basis (₹ 2,88,000/2) | | 1,44,000 |
| Reduction in value of Plant & Machinery (WN 6) | | (50,000) |
| | | 5,54,000 |
| Less: Preliminary expenses written off | | (20,000) |
| Total Capital Profit | | 5,34,000 |
| Holding company's share (5,34,000 X 80%) | | 4,27,200 |
| Minority Interest (5,34,000 X 20%) | | 1,06,800 |

**Note:** Preliminary expenses as on 1st April, 2019 amounting ₹ 20,000 have been written off.

3. **Revenue profits of S Ltd.**

| | | |
|---|---|---|
| Profit after 1st October, 2019 (3,28,000 - 40,000)/2 | | 1,44,000 |
| *Less* 10% depreciation on ₹5,20,000 for 6 months | (26,000) | |
| Add: Depreciation already charged for 2nd half year on 6,00,000 | 30,000 | 4,000 |
| | | 1,48,000 |
| Holding company's share (1,48,000 X 80%) | | 1,18,400 |
| Minority Interest (1,48,000 X 20%) | | 29,600 |

4. **Minority interest**

| | |
|---|---|
| Par value of 16,000 shares (8,00,000 X 20%) | 1,60,000 |
| *Add:* 1/5 Capital Profits [WN 2] | 1,06,800 |
| 1/5 Revenue Profits [WN 3] | 29,600 |
| | 2,96,400 |

5. **Cost of Control**

| | | |
|---|---|---|
| Amount paid for 64,000 shares | | 12,27,200 |
| *Less:* | | |
| Par value of shares (8,00,000 X 80%) | 6,40,000 | |
| Capital Profits – share of H Ltd. [WN 2] | 4,27,200 | (10,67,200) |
| Cost of Control or Goodwill | | 1,60,000 |

**6. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1st October, 2019**

| | ₹ |
|---|---|
| Value of plant and machinery as on 1st April,2019 | 6,00,000 |
| Less: Depreciation for the six months | (30,000) |
| Value of plant and machinery as on 1st October, 2019 | 5,70,000 |
| Less: Plant and machinery valued by H Ltd. on 1st October,2019 | (5,20,000) |
| Revaluation Loss | 50,000 |

**7. Value of plant & Machinery of S Ltd. On 31st March,2020**

| | |
|---|---|
| Value of machinery on 1st October, 2019 | 5,20,000 |
| Less: depreciation for next six month | (26,000) |
| | 4,94,000 |

**(b) Statement showing classification as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016**

| | | *(₹ in lakhs)* |
|---|---|---|
| *Standard Assets* | | |
| Accounts (Balancing figure) | 166.00 | |
| 300 accounts overdue for a period for 2 months | 150.00 | |
| 48 accounts overdue for a period by 3 months | 64.00 | 380.00 |
| *Sub-Standard Assets* | | |
| 4 accounts identified as sub-standard asset for a period less than 14 months | | 92.00 |
| *Doubtful Debts* | | |
| 16 accounts identified as sub-standard for a period more than 14 months | | 28.00 |
| 4 accounts identified as sub-standard for a period more than 3 years | | 60.00 |
| *Loss Assets* | | |
| One account identified by management as loss asset | | 40.00 |
| Total overdue | | 600.00 |

**Question 3**

*(a) High Ltd. and Low Ltd. were amalgamated on and from, 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:*

*(₹ in Lakhs)*

| *Liabilities* | *High Ltd.* | *Low Ltd.* | *Assets* | *High Ltd.* | *Low Ltd.* |
|---|---|---|---|---|---|
| *Share Capital:* | | | *Property, Plant and Equipment:* | | |
| *Equity Shares of ₹ 100 each* | *1000* | *850* | *Land & Building* | *670* | *385* |
| *14% Pref Shares of ₹ 100 each* | *320* | *175* | *Plant & Machinery* | *475* | *355* |
| *Reserves & Surplus:* | | | *Investments* | *95* | *80* |
| *Revaluation Reserve* | *225* | *110* | *Current Assets:* | | |
| *General Reserve* | *360* | *240* | *Stock* | *415* | *389* |
| *Investment Allowance Reserve* | *80* | *40* | *Sundry Debtors* | *322* | *213* |
| *P & L Account* | *85* | *82* | *Bills Receivables* | *35* | *-* |
| *Non-Current Liabilities:* | | | *Cash & Bank* | *303* | *166* |
| *Secured Loans:* | | | | | |
| *13% Debentures (₹ 100 each)* | *100* | *56* | | | |
| *Unsecured Loans (Public Deposits)* | *50* | *-* | | | |
| *Current Liabilities & Provisions:* | | *-* | | | |
| *Sundry Creditors* | *65* | *35* | | | |
| *Bills Payable* | *30* | *-* | | | |
| *TOTAL* | *2315* | *1588* | *TOTAL* | *2315* | *1588* |

*Other Information :*

*(1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.*

*(2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)*

*(3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.*

*(4) Investment Allowance Reserve is to be maintained for two more years.*

*Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.*

*(b) In a winding up of a company creditor remain unpaid. The following persons had transferred their holdings before winding up.*

| *Name* | *Date of Transfer* | *No of shares transferred* | *Amt. due to creditors on the transfer (₹)* |
|---|---|---|---|
| *D* | *1st January, 2019* | *1000* | *8,500* |
| *E* | *15th February, 2019* | *400* | *13,500* |
| *H* | *15th March, 2019* | *700* | *19,000* |
| *J* | *31st March, 2019* | *900* | *22,000* |
| *K* | *5th April, 2019* | *1000* | *31,000* |

*The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.*

*(1) A member G, who holds 200 shares died on 28th Feb., 2019 when the amount due to creditors was ₹ 16000. His shares were transmitted to his Son X.*

*(2) R was the transferee of shares held by J. R paid ₹ 20 per share as calls in advance immediately on becoming a member.*

*(3) The liquidation of the Company commenced on 1st February, 2020. Then the liquidator made a call on the present and past contributories to pay the amount.*

*You are required to quantify the maximum liability of the transferors of shares mentioned in the above table.* ***(15 + 5 = 20 Marks)***

**Answer**

**(a) Balance Sheet of Little Ltd. as at 1st April, 2020**

| **Particulars** | **Note No.** | **(₹ in lakhs)** |
|---|---|---|
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 1,150.0 |
| (b) Reserves and Surplus | 2 | 2,437.8 |
| (2) Non-Current Liabilities | | |
| Long-term borrowings | 3 | 135.2 |
| Other Borrowings- Unsecured Loans | | 50 |
| (3) Current Liabilities | | |
| Trade payables | 4 | 130.0 |

| | | |
|---|---|---|
| Total | | 3,903 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, Plant and Equipment | 5 | 1,885 |
| (b) Non-current investment (95 + 80) | | 175 |
| (2) Current assets | | |
| (a) Inventory (415+389) | | 804 |
| (b) Trade receivables | 6 | 570 |
| (c) Cash and bank balances (303 + 166) | | 469 |
| Total | | 3,903 |

**Notes to Accounts**

| | | (₹ in lakhs) | (₹ in lakhs) |
|---|---|---|---|
| 1. | Share Capital | | |
| | Equity share capital (W.N.1) | | |
| | 65,50,000[1] Equity shares of 10 each | 655 | |
| | 4,95,000[2] Preference shares of ₹ 100 each | 495 | |
| | (all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash) | | |
| | | | 1,150 |
| 2. | Reserves and surplus | | |
| | Securities Premium Account (W.N.3) (1080+ 681.25) | 1,761.25 | |
| | Capital Reserve (W.N. 2)(283.33 + 393.22) | 676.55 | |
| | Investment Allowance Reserve (80 + 40) | 120 | |
| | Amalgamation Adjustment Reserve (80 + 40) | (120) | 2,437.8 |
| 3. | Long-term borrowings | | |
| | 15% Debentures | | 135.2 |
| 4. | Trade payables | | |
| | Sundry Creditors: High Ltd. | 65 | |

[1] 40,00,000 + 25,50,000
[2] 3,20,000 + 1,75,000

| | | | | |
|---|---|---|---|---|
| | Low Ltd. | | 35 | |
| | Bills Payable: High Ltd. | | 30 | 130 |
| 5. | Property, Plant and Equipment | | | |
| | Land and Building : High Ltd | 670 | | |
| | Low Ltd | 385 | 1055 | |
| | Plant and Machinery: High Ltd. | 475 | | |
| | Low Ltd. | 355 | 830 | 1,885 |
| 6. | Trade receivables | | | |
| | Sundry Debtors: High Ltd. | | 322 | |
| | Low Ltd. | | 213 | |
| | Bills Receivables: High Ltd. | | 35 | 570 |

**Working Notes:**

| | | (₹ in lakhs) | |
|---|---|---|---|
| | | **High Ltd.** | **Low Ltd.** |
| (1) | Computation of Purchase consideration | | |
| | (a) Preference shareholders: | | |
| | $\left(\frac{3,20,00,000}{100}\text{ i.e. 3,20,000 shares}\right) \times$ ₹ 125 each | 400 | |
| | $\left(\frac{1,75,00,000}{100}\text{ i.e. 1,75,000 shares}\right) \times$ ₹ 125 each | | 218.75 |
| | (b) Equity shareholders: | | |
| | $\left(\frac{10,00,00,000 \times 4}{100}\text{ i.e. 40,00,000 shares}\right) \times$ ₹ 35 each | 1,400 | |
| | $\left(\frac{8,50,00,000 \times 3}{100}\text{ i.e. 25,50,000 shares}\right) \times$ ₹ 35 each | ____ | 892.50 |
| | Amount of Purchase Consideration | 1,800 | 1,111.25 |
| (2) | Computation of Capital Reserve | | |
| | Assets taken over: | | |
| | Land and Building | 670 | 385 |
| | Plant and Machinery | 475 | 355 |
| | Investments | 95 | 80 |
| | Inventory | 415 | 389 |
| | Trade receivables | 322 | 213 |
| | Bills Receivables | 35 | |

| | | | | | |
|---|---|---|---|---|---|
| | Cash and bank | | 303 | | 166 |
| | | | 2,315 | | 1,588 |
| | *Less:* Liabilities taken over: | | | | |
| | Debentures | 86.67 | | 48.53 | |
| | Unsecured Loan | 50 | | | |
| | Creditors | 65 | | 35 | |
| | Bills Payable | 30 | | | |
| | | | 231.67 | | 83.53 |
| | Net assets taken over | | 2083.33 | | 1,504.47 |
| | Purchase consideration | | 1,800 | | 1,111.25 |
| | Capital reserve | | 283.33 | | 393.22 |
| (3) | Computation of securities premium | | | | |
| | On preference share capital | | | | |
| | High Ltd.- 3,20,000 x 25 | | 80 | | |
| | Low Ltd.- 1,75,000 x 25 | | | | 43.75 |
| | On equity share capital | | | | |
| | High Ltd.- 40,00,000 x 25 | | 1000 | | |
| | Low Ltd.- 25,50,000 x 25 | | | | 637.5 |
| | Total | | 1080 | | 681.25 |
| (4) | Issue of Debentures (₹ In Lakhs)<br>High Ltd.- 15% fresh issue of debenture for 13% old debentures =<br>100 X 13% /15% = 86.67(rounded off)<br>Low Ltd.- 15% fresh issue of debenture for 13% old debentures =<br>56 X 13% /15% = 48.53 (rounded off)<br>Total number of debentures issued = 86.67 + 48.53 = 135.20 Lakhs | | | | |

**(b) Statement of Liability as Contributories of Former Members**

| Date | Creditors outstanding | Amount paid to Creditors (Increase in Creditors) | No. of shares | E 400 shares | G/X 200 shares | H 700 shares | K 1,000 shares | Amount to be paid to Creditors |
|---|---|---|---|---|---|---|---|---|
| **2019** | **₹** | **₹** | **Ratio** | **₹** | **₹** | **₹** | **₹** | **₹** |
| Feb 15 | 13,500 | 13,500 | 4:2:7:10 | 2,348 | 1,174 | 4,108 | 5,870 | 13,500 |
| Feb 28 | 16,000 | 2,500 | 2:7:10 | — | 263 | 921 | 1,316 | 2,500 |
| March 15 | 19,000 | 3,000 | 2:7:10 | — | 316 | 1,105 | 1,579 | 3,000 |
| April 5 | 31,000 | 12,000 | 2:10 | — | 2,000 | — | 10,000 | 12,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | (a) Maximum amount payable to creditors | 2,348 | 3,753 | 6,134 | 18,765 | 31,000 |
| | (b) Maximum liability at ₹ 20 per share held | 8,000 | 4,000 | 14,000 | 20,000 | |
| | Lower of (a) and (b) | 2,348 | 3,753 | 6,134 | 18,765 | |

**Working Note:**

(1) The transferors are D, E, H, J and K. When the transferees pay the amount due as "present" member contributories, there will not be any liability on the transferors. It is only when the transferees do not pay as "present" member contributories then the liability would arise in the case of "past" members as contributories.

(2) D will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer.

(3) J also will not be liable as the transferee R has paid the balance ₹ 20 per share as call in advance.

(4) E, G/X, H and K will be liable, as former members, to the maximum extent as indicated, provided the transferees do not pay the calls.

(5) X to whom shares were transmitted on demise of his father G would be liable as an existing member contributory. He steps into the shoes of his deceased father under section 430. His maximum liability would be at ₹ 20 per share on 200 shares received on transmission i.e. for ₹ 4,000.

**Question 4**

*(a) Mohan and Sohan were carrying business in partnership, sharing profit and losses equally. The Balance Sheet of the firm as on 31st March, 2019 stood as under:*

| *Liabilities* | *₹* | *Assets* | *₹* |
|---|---|---|---|
| *Partners' Capital Accounts:* | | *Leasehold Premises* | *40,800* |
| *- Mohan 1,68,000* | | *Plant & Machinery* | *1,80,000* |
| *-Sohan 1,56,000* | *3,24,000* | *Inventories* | *72,000* |
| *Bank Overdraft* | *42,000* | *Trade Receivables* | *84,000* |
| *Trade Payables* | *72,000* | *Joint Life Policy* | *10,800* |
| | | *Profit & Loss Account* | *31,200* |
| | | *Partners' Current Accounts:* | |
| | | *-Mohan 12,000* | |
| | | *-Sohan 7,200* | *19,200* |
| | *4,38,000* | | *4,38,000* |

*The business was carried on till 30th September, 2019. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30th September, 2019 equally. The profit was calculated after charging depreciation @5% per annum on Leasehold premises and 10% per annum on Plant & Machinery.*

*In the half year, the amounts of Bank Overdraft and Trade Payables stood reduced by ₹ 18,000 and ₹ 12,000 respectively. On 30th September, 2019, the inventories were valued at ₹ 90,000 and Trade Receivables at ₹ 72,000. The Joint Life Policy had been surrendered for ₹ 10,800 before 30th September, 2019 and all other items remained the same as at 31st March, 2019.*

*On 30th September, 2019, the firm sold off its business to PKR Limited. The value of Goodwill was fixed at ₹ 1,20,000 and the rest of the assets and liabilities were valued on the basis of their book values as at 30th September, 2019. PKR Ltd. paid the purchase consideration in equity shares of ₹10 each.*

*You are requested to prepare the following:*

*(1) Balance Sheet of the Firm as at 30th September, 2019;*

*(2) Realization Account;*

*(3) Partners' Capital Account showing the final settlement between them.*

*(b) Vikas Finance Ltd. is a Non Banking Finance Company. The extracts of its Balance Sheet are as under :*

| *Liabilities* | *(₹ in '000)* | *Assets* | *(₹ in '000)* |
|---|---|---|---|
| *Paid up Equity Capital* | *250* | *Leased out Assets* | *2,000* |
| *Free Reserves* | *1,250* | *Investments:* | |
| *Loans* | *1,000* | *- In shares of subsidiaries and Group Companies* | *275* |
| *Deposits* | *1,000* | *- In debentures of subsidiaries and Group Companies* | *225* |
| | | *Cash & Bank Balances* | *500* |
| | | *Deferred Expenditure* | *500* |
| *TOTAL* | *3,500* | *TOTAL* | *3,500* |

*You are requested to compute the "Net Owned Funds" of Vikas Finance Ltd. as per Non Banking Finance Company - Systematically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016.* ***(15 + 5 = 20 Marks)***

**Answer**

**(a) (i) Balance Sheet of the Firm as at 30.9.2019**

| *Liabilities* | ₹ | ₹ | *Assets* | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital Accounts: | | | Machinery | 1,80,000 | |
| Mohan balance as on 30.9.2019 | 1,40,400 | | *Less*: Depreciation | | |
| *Add*: Profit for 6 months | 15,180 | | @10% p.a. for 6 months | (9,000) | 1,71,000 |
| | 1,55,580 | | | | |
| *Less*: Drawings for 6 months | (7,590) | 1,47,990 | Leasehold premises *Less*: Written-off @ 5% | 40,800 | |
| Sohan balance as on 30.9.2019 | 1,33,200 | | for 6 months | (1,020) | 39,780 |
| *Add*: Profit for 6 months | 15,180 | | Inventory | | 90,000 |
| | 1,48,380 | | Trade receivables | | 72,000 |
| *Less*: Drawings for 6 months | (7,590) | 1,40,790 | | | |
| Trade payables (72,000 – 12,000) | | 60,000 | | | |
| Bank overdraft (42,000 – 18,000) | | 24,000 | | | |
| | | 3,72,780 | | | 3,72,780 |

**(ii) Realization Account**

| | *Particulars* | ₹ | | *Particulars* | ₹ |
|---|---|---|---|---|---|
| To | Machinery A/c | 1,71,000 | By | Trade payables A/c | 60,000 |
| To | Leasehold Premises A/c | 39,780 | By | Bank Overdraft A/c | 24,000 |
| To | Inventory A/c | 90,000 | By | PKR Ltd. A/c (W.N.1) | 4,08,780 |
| To | Trade receivables A/c | 72,000 | | | |
| To | Mohan Capital A/c | 60,000 | | | |
| To | Sohan Capital A/c | 60,000 | | | |
| | | 4,92,780 | | | 4,92,780 |

**(iii) Partners' Capital Accounts**

| *Date* | *Particulars* | *Mohan* | *Sohan* | *Date* | *Particulars* | *Mohan* | *Sohan* |
|---|---|---|---|---|---|---|---|
| | | ₹ | ₹ | | | ₹ | ₹ |
| 1.4.19 | To Profit & Loss A/c | 15,600 | 15,600 | 1.4.19 | By Balance b/d | 1,68,000 | 1,56,000 |
| | To Current A/c | 12,000 | 7,200 | | | | |
| 30.9.19 | Balance c/d | 1,40,400 | 1,33,200 | | | | |
| | | 1,68,000 | 1,56,000 | | | 1,68,000 | 1,56,000 |
| 30.9.19 | To Drawings A/c | 7,590 | 7,590 | 30.9.19 | By Balance b/d | 1,40,400 | 1,33,200 |
| | To Shares in PKR Ltd A/c | 2,07,990 | 2,00,790 | 30.9.19 | By Profit & Loss Appropriation A/c | 15,180 | 15,180 |
| | | | | | By Realization A/c | 60,000 | 60,000 |
| | | 2,15,580 | 2,08,380 | | | 2,15,580 | 2,08,380 |

**Working Notes:**

**(1) Ascertainment of purchase consideration**

| | ₹ | ₹ |
|---|---|---|
| Assets: | | |
| Inventory | | 90,000 |
| Trade receivables | | 72,000 |
| Machinery less depreciation | | 1,71,000 |
| Leasehold premises less written off | | 39,780 |
| | | 3,72,780 |
| *Less*: Liabilities: | | |
| Trade payables | 60,000 | |
| Bank overdraft | 24,000 | (84,000) |
| Closing Net Assets | | 2,88,780 |
| *Add:* Goodwill | | 1,20,000 |
| *Purchase Consideration* | | 4,08,780 |

**(2) Ascertainment of profit for the 6 month ended 30th September,2019**

| | ₹ | ₹ |
|---|---|---|
| Closing Net Assets | | 2,88,780 |
| *Less:* Opening Combined Capital | | |
| Mohan – (1,68,000- 15,600-12,000) | 1,40,400 | |
| Sohan – (1,56,000-15,600-7,200) | 1,33,200 | |
| Profit after adjustment of Drawings | | (2,73,600) |
| *Add:* Combined drawings during the 6 month (equal to profit) | | 15,180 |
| | | 15,180 |
| Profit for 6 months | | 30,360 |

**(b) Statement showing computation of 'Net Owned Fund'**

| | | *₹ in 000* |
|---|---|---|
| Paid up Equity Capital | | 250 |
| Free Reserves | | 1,250 |
| | | 1,500 |
| *Less:* Deferred expenditure | | (500) |
| | A | 1,000 |
| Investments | | |
| In shares of subsidiaries and group companies | | 275 |
| In debentures of subsidiaries and group companies | | 225 |
| | B | 500 |
| 10% of A | | 100 |
| Excess of Investment over 10% of A (500-100) | C | 400 |
| Net Owned Fund [(A) - (C)] (1,000-400) | | 600 |

**Question 5**

*(a) Sun Ltd. grants 100 stock options to each of its 1200 employees on 01.04.2016 for ₹ 30, 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 ₹ 60 each. These options will vest at the end of the year 1 if the earning of Sun Ltd. is 16% or it will vest at the end of 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 is 10%. 6000 unvested options lapsed on 31.3.2017, 5000 unvested options lapsed on 31.03.2018 and finally 4000 unvested options lapsed on 31.03.2019.*

*The earnings of Sun Ltd. for the three financial years ended on 31st March, 2017, 2018 and 2019 are 15%, 10% and 6%, respectively.*

*1000 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.*

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

*(b) Vasu Commercial Bank has the following capital funds and assets.*

*Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted assets and risk weighted assets ratio.*

| *Particulars* | *₹ in crores* |
|---|---|
| *Equity Share Capital* | *600.00* |
| *Statutory Reserve* | *250.00* |
| *Capital Reserve (of which ₹ 26 crores were due to revaluation of assets and the balance due to sale of capital assets)* | *87.00* |
| *Assets:* | |
| *Cash Balance with RBI* | *20.00* |
| *Balance with other banks* | *28.00* |
| *Other investments* | *38.00* |
| *Loans and advances :* | |
| *(i) Guaranteed by the Govt.* | *18.50* |
| *(ii) Others* | *6,625.00* |
| *Premises, Furniture and fixtures* | *108.00* |
| *Off-Balance Sheet Items* | |
| *(i) Guarantee and other obligations* | *600.00* |
| *(ii) Acceptances, endorsements and letter of credit* | *4,200.00* |

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

**Answer**

**(a)**

| **Date** | **Particulars** | | **₹** | **₹** |
|---|---|---|---|---|
| 31.3.2017 | Employees compensation expense A/c | Dr. | 17,10,000 | |
| | To ESOS outstanding A/c | | | 17,10,000 |
| | (Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,200 employees at a discount of ₹ 30 each, | | | |

| | | | | |
|---|---|---|---|---|
| | amortized on straight line basis over vesting years (Refer W.N.) | | | |
| | Profit and Loss A/c<br>To Employees compensation expenses A/c<br>(Being expenses transferred to profit and Loss A/c) | Dr. | 17,10,000 | 17,10,000 |
| 31.3.2018 | Employees compensation expenses A/c<br>To ESOS outstanding A/c<br>(Being compensation expense recognized in respect of the ESOP- Refer W.N.) | Dr. | 4,70,000 | 4,70,000 |
| | Profit and Loss A/c<br>To Employees compensation expenses A/c<br>(Being expenses transferred to profit and Loss A/c) | Dr. | 4,70,000 | 4,70,000 |
| 31.3.2019 | Employees compensation Expenses A/c<br>To ESOS outstanding A/c<br>(Being compensation expense recognized in respect of the ESOP- Refer W.N.) | Dr. | 9,70,000 | 9,70,000 |
| | Profit and Loss A/c<br>To Employees compensation expenses A/c<br>(Being expenses transferred to profit and Loss A/c) | | 9,70,000 | 9,70,000 |
| 2019-20 | Bank A/c (1,00,000 x ₹ 30)<br>ESOS outstanding A/c [(31,50,000/1,05,000) x 1,00,000]<br>To Equity share capital (1,00,000 x ₹ 10)<br>To Securities premium A/c (1,00,000 x ₹ 50)<br>(Being 1,00,000 options exercised at an exercise price of ₹ 30 each) | Dr.<br>Dr. | 30,00,000<br>30,00,000 | <br><br>10,00,000<br>50,00,000 |

| | | | | |
|---|---|---|---|---|
| 31.3.2020 | ESOS outstanding A/c<br>To General Reserve A/c<br>(Being ESOS outstanding A/c on lapse of 5,000 options at the end of exercise of option period transferred to General Reserve A/c) | Dr. | 1,50,000 | 1,50,000 |

**Working Note:**

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

| Particulars | Year 1 (31.3.2017) | Year 2 (31.3.2018) | Year 3 (31.3.2019) |
|---|---|---|---|
| Number of options expected to vest | 1,14,000 options | 1,09,000 options | 1,05,000 options |
| Total compensation expense accrued (60-30) | ₹ 34,20,000 | ₹ 32,70,000 | ₹ 31,50,000 |
| Compensation expense of the year | 34,20,000 x 1/2 = ₹ 17,10,000 | 32,70,000 x 2/3 = ₹ 21,80,000 | ₹ 31,50,000 |
| Compensation expense recognized previously | Nil | ₹ 17,10,000 | ₹ 21,80,000 |
| Compensation expenses to be recognized for the year | ₹ 17,10,000 | ₹ 4,70,000 | ₹ 9,70,000 |

**(b)** *(₹ in Crores)*

| | | |
|---|---|---|
| **(i)** Capital Funds - Tier I : | ₹ | ₹ |
| Equity Share Capital | | 600 |
| Statutory Reserve | | 250 |
| Capital Reserve (arising out of sale of assets) (87 – 26) | | 61 |
| Capital Fund Tier I | | 911.0 |
| Capital Funds - Tier II : | | |
| Capital Reserve (arising out of revaluation of assets) | 26.0 | |
| *Less*: Discount to the extent of 55% | (14.3) | |
| Capital fund Tier II | | 11.7 |
| Total Capital Fund | | 922.7 |

**(ii) Calculation of Risk Adjusted Assets**

| Funded Risk Assets | | | Amount |
|---|---|---|---|
| | ₹ | weight in % | ₹ |
| Cash Balance with RBI | 20 | 0 | 0 |
| Balances with other Banks | 28 | 20 | 5.6 |
| Other Investments | 38 | 100 | 38 |
| Loans and Advances: | | | |
| (i) guaranteed by government | 18.5 | 0 | 0 |
| (ii) Others | 6625 | 100 | 6625 |
| Premises, furniture and fixtures | 108 | 100 | 108 |
| | | | 6776.60 |
| *Off-Balance Sheet Item* | *₹ in Crores* | *Credit Conversion Factor* | |
| Guarantees & Other Obligations | 600 | 100 | 600 |
| Acceptances, Endorsements and Letters of credit | 4,200 | 100 | 4,200 |
| | | | 11576.60 |

Risk Weighted Assets Ratio: $\frac{\text{Capital Funds (Tier I \& Tier II)}}{\text{Risk Adjusted Assets + off Balance sheet items}} \times 100$

$$= \frac{911 + 11.7}{6776.60 + 4,800}$$

Capital Adequacy Ratio = 922.7/ 11576.6 = 7.97%

**Question 6**

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

(a) *Under what circumstances an LLP can be wound up by the tribunal?*

(b) *Beekey Limited is being wound up by the tribunal. All the assets of the company have been charged in favour of the company's bankers to whom the company owes ₹ 2.50 crores. The company owes following amounts to others:*

*Dues to workers - ₹ 62,50,000*

*Taxes payable to Government - ₹ 15,00,000*

*Unsecured creditors - ₹30,00,000*

*You are required to compute with reference to the provisions of the Companies Act, 2013, the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only ₹2,00,00,000.*

*(c) M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31st March, 2019, the total expenditure incurred on the process was ₹ 80 lakhs. The production process met the criteria for recognition as an intangible asset on 1st November, 2018. Expenditure incurred till this date was ₹ 42 lakhs.*

*Further expenditure incurred on the process for the financial year ending 31st March, 2020 was ₹90 lakhs. As on 31.03.2020, the recoverable amount of know how embodied in the process is estimated to be ₹82 lakhs. This includes estimates of future cash outflows and inflows.*

*You are required to work out :*

*(1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2019 ?*

*(2) What is the carrying amount of the intangible asset as on 31st March, 2019?*

*(3) What amount of expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2020 ?*

*What is the carrying amount of the intangible asset as on 31st March, 2020?*

*(d) A, B, C and D hold Equity Share Capital in the proportion of 40:30:20:10 and P, Q, R and S hold Preference Share Capital in the proportion of 30:40:20:10 in Alpha Ltd. If the paid up Equity Share Capital of Alpha Ltd. is ₹ 75 lacs and the Preference Share Capital is ₹25 lacs, find their voting rights in the case of resolution of winding up of the company.*

*(e) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:*

*(i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.*

*(ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.*

***(4 Parts x 5 Marks= 20 Marks)***

**Answer**

**(a)** An LLP may be wound up by the Tribunal in the following circumstances:

- If the LLP decides that it should be wound up by the Tribunal;
- If for a period of more than six months, the number of partners of the LLP is reduced below two;
- If the LLP is unable to pay its debts;
- If the LLP has acted against the interests of the integrity and sovereignty of India, the security of the state or public order;
- If the LLP has defaulted in the filing of the Statement of Account and Solvency with the Registrar for five consecutive financial years;
- If the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

**(b)** Section 326 of the Companies Act, 2013 is talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a pari passu change in favour of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized X Workman's Dues}}{\text{Workman's Dues + Secured Loan}}$$

$$\text{Workman's Share to Secured Asset} = \frac{2{,}00{,}00{,}000 \text{ X } 62{,}50{,}000}{62{,}50{,}000 + 2{,}50{,}00{,}000}$$

$$= 2{,}00{,}00{,}000 \text{ X } 1/5$$

Workmen's share to Secured Assets = ₹ 40,00,000

Amount available to secured creditor is ₹ 200 Lakhs – 40 Lakhs = 160 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

**(c)** As per AS 26 'Intangible Assets'

(i) **Expenditure to be charged to Profit and Loss account for the year ending 31.03.2019**

₹ 42 lakhs is recognized as an expense because the recognition criteria were not met until 1st November, 2018. This expenditure will not form part of the cost of the production process recognized as an intangible asset in the balance sheet.

**(ii) Carrying value of intangible asset as on 31.03.2019**

At the end of financial year, on 31st March 2019, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 38 (80-42) lakhs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st November 2018)

**(iii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2020**

| | *(₹ in lacs)* |
|---|---:|
| Carrying Amount as on 31.03.2019 | 38 |
| Expenditure during 2019 – 2020 | 90 |
| Book Value | 128 |
| Recoverable Amount | (82) |
| Impairment loss to be charged to Profit and loss account | 46 |

₹ 46 lakhs to be charged to Profit and loss account for the year ending 31.03.2020.

**(iv) Carrying value of intangible asset as on 31.03.2020**

| | *(₹ in lacs)* |
|---|---:|
| Book Value | 128 |
| *Less:* Impairment loss | (46) |
| Carrying amount as on 31.03.2020 | 82 |

**(d)** A, B, C and D hold Equity capital is held by in the proportion of 40:30:20:10 and P, Q, R and S hold preference share capital in the proportion of 30:40:20:10. As the paid-up equity share capital of the company is ₹ 75 Lakhs and Preference share capital is ₹ 25 Lakh (3:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 3/4 and 1/4.

The respective voting right of various shareholders will be:

A = 3/4X40/100 = .3 (30%)

B = 3/4X30/100 = .225 (22.5%)

C = 3/4X20/100 = .15 (15%)

D = 3/4X10/100 = .075 (7.5%)

P = 1/4X30/100 = .075 (7.5%)

Q = 1/4X40/100 = 0.1 (10%)

R = 1/4X20/100 = .05 (5%)

S = 1/4X10/100 = .025 (2.5%)

**(e)** **(i)** The construction of the oil rig creates an obligation under the terms of the license to remove the rig and restore the seabed and is thus an obligating event. At the balance sheet date, however, there is no obligation to rectify the damage that will be caused by extraction of the oil. An outflow of resources embodying economic benefits in settlement is probable. Thus, a provision is recognized for the best estimate of 85% of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it. These costs are included as part of the cost of the oil rig.

However, there is no obligation to rectify the damage that will be caused by extraction of oil, as no oil has been extracted at the balance sheet date. So, no provision is required for the cost of extraction of oil at balance sheet date. 15% of costs that arise through the extraction of oil are recognized as a liability when the oil is extracted.

**(ii)** As per AS 29, a provision for restructuring costs is recognized only when the recognition criteria for provisions are met. A restructuring provision does not include costs as of retraining or relocating continuing staff.

The expenditures of training the staff related to the future conduct of the business and are not liabilities for restructuring at the balance sheet date. Such expenditures are recognized on the same basis as if they arose independently of a restructuring. At the balance sheet date, no such expenditure has been incurred hence no provision is required.