(ALL BATCHES)

DATE: 10.08.2018 **MAXIMUM MARKS: 100** **TIMING: 3¼Hours**

PAPER 5 :ADVANCE ACCOUNTING

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any Four questions from the remaining Five Questions.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Wherever necessary, suitable assumptions may be made and disclosed by way of note.

Question 1:

(a) The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14:

Net profit for	Rs.
Year 2012-13	22,00,000
Year 2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares outstanding i.e. 2,00,000 shares.
: Right Issue price Rs.25
: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 isRs.32.

You are required to compute:

(i) Basic earnings per share for the year 2012-13.

(ii) Restated basic earnings per share for the year 2012-13 for right issue.

(iii) Basic earnings per share for the year 2013-14.

(5 Marks)

(b) Given the following information of M/s. Paper Products Ltd.

(i) Goods of Rs. 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

(ii) On 15-1-2015 goods of Rs. 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.

(iii) Rs. 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.

(iv) Apart from the above, the company has made cash sales of Rs. 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(5 Marks)

(c) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are Rs. 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is Rs.70,000. The IRR of the investment is 10%. The present value of annuity factor of Rs.1 due at the end of 4th year at 10% IRR is 3.169. The present value of Rs.1 due at the end of 4th year at 10% rate of interest is 0.683.
State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(5 Marks)

(d) Identify the related parties in the following cases as per AS 18
A Ltd. holds 51% of B Ltd.
B Ltd holds 51% of O Ltd.
Z Ltd holds 49% of O Ltd.

(5 Marks)

Question 2:

(a) The position of Valueless Ltd. on its liquidation is as under:
Issued and paid up Capital:
3,000 11% preference shares of Rs.100 each fully paid.
3,000 Equity shares of Rs.100 each fully paid.
1,000 Equity shares of Rs.50 each Rs.30 per share paid.
Calls in Arrears are Rs.10,000 and Calls received in Advance Rs.5,000. Preference Dividends arein arrears for one year. Amount left with the liquidator after discharging all liabilities isRs. 4,13,000. Articles of Association of the company provide for payment of preference dividendarrears in priority to return of equity capital. You are required to prepare the Liquidators finalstatement of account.

(10 Marks)

(b) Following is the summarized Balance Sheet of Competent Limited as on 31st March, 20X1 :

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

The company wants to buy back 25,000 equity shares of Rs. 10 each, on 1st April, 20X1 at Rs, 20 per share. Buy back of shares is duly authorized by its articles and necessary resolution has been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available shown as part of Current Assets.

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

(10 Marks)

Question 3:

(a) The Balance Sheet of A & Co. Ltd. as on 31-12-20X1 is as follows:

Assets	**Rs.**	**Rs.**
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit and Loss Account		5,35,000
Total		**21,42,500**
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of Rs.100 each	4,00,000	
75,000 Equity Shares of Rs. 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	22,500	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	1,00,000	5,95,000
		21,42,500

The Court approved a Scheme of re-organisation to take effect on 1-1-20X1, whereby:

(i) The Preference shares to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.

(ii) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of Rs. 2 each to be allotted for the remaining quarter.

(iii) Accrued interest on debentures to be paid in cash.

(iv) Debenture-holders agreed to take over freehold property, book value Rs. 1,00,000 at a valuation of Rs. 1,20,000 in part repayment of their holdings and to provide additional cash of Rs. 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(v) Patents and Goodwill to be written off.

(vi) Inventory to be written off by Rs. 65,000.

(vii) Amount of Rs. 68,500 to be provided for bad debts.

(viii) Remaining freehold property to be re-valued at Rs. 3,87,500.

(ix) Trade Investments be sold for Rs. 1,40,000.

(x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of Rs. 2 each and as to 5% in cash, and balance 5% being waived.

(xi) There were capital commitments totallingRs. 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

[Mark-15]

(b) H Ltd. having Share Capital of Rs. 50 Lakhs divided into Equity share of Rs. 10 each, was taken over by G Ltd. H Ltd. has General Reserve of Rs. 10,00,000 and Profit and Loss Account Cr. Rs. 5,00,000. G. Ltd. issued 11 Equity Share of Rs. 10 each for every 10 share of H Ltd.
Show how the Journal Entries would be passed in the banks of G. Ltd., for the shares issued under the pooling of interest method of Amalgamation.

[Mark-5]

Question 4:

(a) Sunlife General Insurance Company submits the following information for the year ended31st March 2013:

Particulars	Direct Business (Rs.)	Reinsurance (Rs.)
Premium received	65,75,000	9,50,000
Premium paid	---	4,75,000
Claims paid during the year	42,50,000	5,00,000
Claims payable 1st April, 2012	6,25,000	87,000
31st March, 2013	7,18,000	60,000
Claims received	---	3,25,000
Claims receivable 1st April, 2012		65,000
31st March, 2013		1,10,000
Expenses of management	2,30,000	
Commission		
On insurance accepted	1,50,000	11,000
On insurance ceded		14,000

The following additional information is also available:
(1) Expenses of management include Rs.35,000 surveyor's fee and Rs.45,000 legal expensesfor settlement of claims.
(2) Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve forunexpired risk as on 1.4.12 was Rs.24,50,000.
You are required to prepare the Revenue Account for the year ended 31st March, 2013.

(10 Marks)

(b)

Outstanding Balance	Rs. 4 lakhs
ECGC Cover	50%
Period for which the advance has remained doubtful	More than 3 years remained doubtful (as)
Value of security held	Rs. 1.50 lakhs

You are required to calculate provisions.

(5 Marks)

(c) A fund purchased 10,000 debentures of a company on June 1, 2016 for Rs. 10.7 lakh and further 5,000 debentures on Nov 1, 2016 for Rs. 5.45 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31 March and 30 September. On Feb 28, 2017 the fund sold 6,000 of these debentures for Rs. 6.78 lakh. Nominal value per debenture is Rs. 100.
Show Investment in Debentures A/c in books of the fund. **(5 Marks)**

Question 5:

(a) Consider the following summarized balance sheets:

	A Ltd. (As on 31st March, 2017)	B Ltd. (As on 31st December, 2016)		A Ltd. (As on 31st March, 2017)	B Ltd. (As on 31st December, 2016)
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share Capital (Shares of (Rs.) 10 each)	10,00,000	5,00,000	Fixed Assets	6,50,000	4,05,000
Reserves and Surplus	4,50,000	2,05,000	Investment: 40,000 Shares in B Ltd.	8,00,000	—
Secured Loan: 13% Debentures (Rs.100 each)	—	3,00,000	1,000 Debentures in B Ltd.	1,50,000	—
Current Liabilities:			Current Assets:		
Trade payables	3,80,000	80,000	Inventory	2,00,000	3,50,000
Other liabilities	2,00,000	40,000	Trade Receivables	1,50,000	2,65,000
			Cash and Bank	80,000	1,05,000
	20,30,000	11,25,000		20,30,000	11,25,000

On 5th January 2017, certain inventory of B Ltd. costing Rs. 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim.

On 20th January, 2017, A Ltd. sold goods to B Ltd. costing Rs. 1,50,000 at an invoice price of cost plus 20%.

50% of those goods were resold by B Ltd. to A Ltd. within 31st March, 2017 (these were then sold by A Ltd. to a third party before 31st March, 2017). As on 31st March, 2017, B Ltd. owes Rs. 60,000 to A Ltd. In respect of those goods. Pre-acquisition profits of B Ltd. were Rs. 75,000. Prepare consolidated balance sheet as on 31st March, 2017 after making necessary adjustments in the balance sheet of B Ltd.

(20 Marks)

Question 6: (Attempted any four)

(a) What is meant by Initial Disclosure event as per relevant A.S.

(5 Marks)

(b) PPX Ltd. gives the following information about past profits:

Year	Profits (Rs. '000)
2011	21,70
2012	22,50
2013	23,70
2014	24,50
2015	21,10

On scrutiny it is found (i) that upto 2013, PPX Ltd. followed FIFO method of finished inventory valuation thereafter adopted LIFO method, (ii) that upto 2014 it followed straight line depreciation and thereafter adopted written down value method.

Given below the details of Inventory valuation: (Figures inRs. '000)

Year	Opening Inventory		Closing Inventory	
	FIFO	LIFO	FIFO	LIFO
2011	40,00	39,80	46,00	41,20
2012	46,00	41,20	49,20	47,90
2013	49,20	47,90	38,90	39,10
2014	38,90	39,10	42,00	38,50
2015	42,00	38,50	45,00	43,10

Determine future maintainable profits that can be used for valuation of goodwill.

(5 Marks)

(c) Outset Ltd. invited applications from public for 1,00,000 equity shares of Rs. 10 each at a premium of Rs.5 per share. The entire issue was underwritten by the underwriters P, Q, R and S to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares (excluding firm underwriting) from public out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of P, Q, R and S respectively.

Calculate the liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriters. Also ascertain the underwriting commission payable to different underwriters.

(5 Marks)

(d) ABC Ltd. grants 1,000 employees stock options on 1.4.20X0 at Rs. 40, when the market price is Rs. 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.20X2. 600 options are exercised on 30.6.20X3. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

(5 Marks)

(e) Write a short note on accounting for CDT.

(5 Marks)

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