**(GI-5+7, GI-6, GI-8, GI-9, SI-2+4, SI-3 & VI-2)**

**DATE: 06.09.2019 MAXIMUM MARKS: 100 TIMING: 3¼ Hours**

**PAPER : 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 all answers shall be valued and best four will be considered.**
**Wherever necessary, suitable assumptions may be made and disclosed by way of note.**

**Question 1:**

**(a)** SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited"?

**(5 Marks)**

**(b)** The following information relates to M/s. XYZ Limited for the year ended 31st March, 2017: Net Profit for the year after tax: Rs. 75,00,000
Number of Equity Shares of Rs. 10 each outstanding: Rs. 10,00,000 Convertible Debentures Issued by the Company (at the beginning of the year)

| Particulars | Nos. |
|---|---|
| 8% Convertible Debentures of Rs. 100 each | 1,00,000 |
| Equity Shares to be issued on conversion | 1,10,000 |

The Rate of Income Tax: 30%.
You are required to calculate Basic and Diluted Earnings Per Share (EPS).

**(5 Marks)**

**(c)** 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)**

**(d)** 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 installments 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)**

**Question 2:**

**(a)** M/s. Abhi Ltd. issued 2,00,000 shares of Rs. 10 each at a premium of Rs. 20. The entire issue was underwritten as follows:
Amit – 1,20,000 shares (Firm underwriting 10,000 shares) Sumit – 50,000 shares (Firm underwriting 6,000 shares) Lalit – 30,000 shares (Firm underwriting 4,000 shares)
Unmarked applications received by the company (excluding firm underwriting) were 25,000 shares.
The marked applications (excluding firm underwriting) were as follows: Amit – 80,000 shares
Sumit – 35,000 shares Lalit– 24,800 shares
Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides 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. You are required to :
(i) Calculate the liability of each underwriter (number of shares);
(ii) Compute the amounts payable to or due from underwriters; and
(iii) Prepare Journal Entries in the books of the company relating to underwriting.

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

The company wants to buy back 25,000 equity shares of 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.

**(12 Marks)**

**Question 3:**

**(a)** The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

| Liabilities | Amount in Rs. |
|---|---|
| Share Capital: | |
| 5,00,000 Equity shares of Rs. 10 each fully paid up | 50,00,000 |
| 9%, 20,000 Preference shares of Rs. 100 each fully paid up | 20,00,000 |
| Reserves and Surplus: | |
| Profit and Loss Account | (14,60,000) |
| Non-Current Liabilities: | |
| 10% Secured Debentures | 16,00,000 |
| Current Liabilities: | |
| Interest due on Debentures | 1,60,000 |
| Trade Payables | 5,00,000 |
| Loan from Directors | 1,00,000 |
| Bank Overdraft | 1,00,000 |
| Provision for Tax | 1,00,000 |
| Total | 81,00,000 |
| Assets: | |
| Non-Current Assets: | |
| Fixed Assets: | |
| (a) Tangible Assets: | |
| Land & Buildings | 30,00,000 |
| Plant & Machinery | 12,50,000 |
| Furniture & Fixtures | 2,50,000 |
| (b) Intangible Assets: | |
| Goodwill | 10,00,000 |
| Patents | 5,00,000 |
| Current Assets: | |
| Trade Investments | 5,00,000 |
| Trade Receivables | 5,00,000 |
| Inventory | 10,00,000 |
| Discount on issue of debentures | 1,00,000 |
| Total | 81,00,000 |

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

| | |
|---|---:|
| Land and Building | 32,00,000 |
| Plant and Machinery | 6,00,000 |
| Inventory | 7,50,000 |
| Trade Receivables | 4,00,000 |
| Furniture and Fixtures | 1,50,000 |
| Trade Investments | 4,50,000 |

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

**(15 Marks)**

**(b)** The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

| **Assets** | **Alex Ltd. (Rs.)** | **Beta Ltd. (Rs.)** |
|---|---:|---:|
| Goodwill | 1,40,000 | 70,000 |
| Building | 8,40,000 | 2,80,000 |
| Machinery | 14,00,000 | 4,20,000 |
| Inventory | 7,00,000 | 4,90,000 |
| Trade receivables | 5,60,000 | 2,80,000 |
| Cash at Bank | 1,40,000 | 56,000 |
| | 37,80,000 | 15,96,000 |
| **Liabilities** | **Alex Ltd. (Rs.)** | **Beta Ltd. (Rs.)** |
| Share Capital: | | |
| Equity Shares of Rs. 10 each | 28,00,000 | 8,40,000 |
| 8% Preference Shares of Rs. 100 each | 2,80,000 | – |
| 10% Preference Shares of Rs. 100 each | – | 2,80,000 |
| General Reserve | 1,96,000 | 1,96,000 |
| Retirement Gratuity fund | 1,40,000 | 56,000 |
| Trade payables | 3,64,000 | 2,24,000 |
| | 37,80,000 | 15,96,000 |

Beta Ltd.is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at Rs. 1,40,000, Buildings are valued at Rs. 4,20,000 and the Machinery at Rs. 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to calculate purchase consideration.

**(5 Marks)**

**Question 4:**

**(a)** X Fire Insurance Co. Ltd. commenced its business on 1.4.20X1. It submits you the following information for the year ended 31.3.20X2:

| | **Rs.** |
|---|---|
| Premiums received | 15,00,000 |
| Re-insurance premiums paid | 1,00,000 |
| Claims paid | 7,00,000 |
| Expenses of Management | 3,00,000 |
| Commission paid | 50,000 |
| Claims outstanding on 31.3.20X2 | 1,00,000 |
| Create reserve for unexpired risk @50% | |

Prepare Revenue account for the year ended 31.3.20X2.

**(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 on 31 March 2011) |
| 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 Ltd. acquired 1,600 ordinary shares of Rs. 100 each of B Ltd. on 1st July, 2016. On 31st December, 2016 the summarized balance sheets of the two companies were as given below:

| **Liabilities** | **A Ltd. Rs.** | **B Ltd. Rs.** | **Assets** | **A Ltd. Rs.** | **B Ltd. Rs.** |
|---|---|---|---|---|---|
| Capital (Shares of Rs. 100 each fully paid) | 5,00,000 | 2,00,000 | Land & Buildings | 1,50,000 | 1,80,000 |
| Reserves | 2,40,000 | 1,00,000 | Plant & Machinery | 2,40,000 | 1,35,000 |
| Profit & Loss A/c | 57,200 | 82,000 | Investment in B Ltd. at cost | 3,40,000 | — |
| Bank Overdraft | 80,000 | — | Inventory | 1,20,000 | 36,400 |
| Trade Payable | 47,100 | 17400 | Trade Receivable | 59,800 | 40,000 |
| | | | Cash | 14,500 | 8,000 |
| | 9,24,300 | 3,99,400 | | 9,24,300 | 3,99,400 |

The Profit & Loss Account of B Ltd. showed a credit balance of Rs. 30,000 on 1st January, 2016 out of which a dividend of 10% was paid on 1st August, 2016; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at Rs. 1,50,000 on 1st January, 2016 was considered as worth Rs. 1,80,000 on 1st July, 2016; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).
Prepare consolidated Balance Sheet as on 31st December, 2016.

**(20 Marks)**

**Question 6: (Answer any four)**

**(a)** E, F, G and H hold Equity Capital in Alpha Co. in the proportion of 30:30:20:20. S,T,U and V hold preference share capital in the proportion of 40:30:10:20. If the paid up capital of the company is Rs. 120 Lakh and Preference share capital is Rs. 60 Lakh, You are required to calculate their voting rights in case of resolution of winding up of the company.

**(5 Marks)**

**(b)** Explain the conditions involved in an amalgamation in the Nature of merger.

**(5 Marks)**

**(c)** XYZ Limited is being would up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

- ✓ Dues to workers – Rs. 1,25,00,000
- ✓ Taxes Payable to Government – Rs. 30,00,000
- ✓ Unsecured Creditors – Rs. 60,00,000

You are required to compute with the reference to the provision 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 Rs. 4,00,00,000/-

**(5 Marks)**

**(d)** Find out Leverage effect on Goodwill in the following case:

| | | |
|---|---|---|
| (i) | Current cost of capital employed | Rs. 10,40,000 |
| (ii) | Profit earned after current cost adjustments | Rs. 1,72,000 |
| (iii) | 10% long term loan | Rs. 4,50,000 |
| (iv) | Normal rate of return: | |
| | On equity capital employed | 15.6% |
| | On long-term capital employed | 13.5% |

**(5 Marks)**

**(e)** While closing its books of account on 31st March, 2017 a Non-Banking Finance Company has its advances classified as follows:

| | **Rs. in lakhs** |
|---|---|
| Standard assets | 53,600 |
| Sub-standard assets | 2,680 |
| Secured portions of doubtful debts: | |
| – Up to one year | 640 |
| – one year to three years | 180 |
| – more than three years | 60 |
| Unsecured portions of doubtful debts | 194 |
| Loss assets | 96 |

Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

**(5 Marks)**

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