(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 03.10.2019 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) Base Limited is showing an intangible asset at Rs. 85 lakhs as on 1-4-2011. This asset was acquired for Rs. 112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.

(5 Marks)

(b) The following information is available for TON Ltd. for the accounting year 2015-16 and 2016-17:

	Net Profit for	Rs.
Year	2015-16	35,00,000
Year	2016-17	45,00,000

No. of shares outstanding prior to right issue 15,00,000 shares.

Right issue : One new share for each 3 shares outstanding i.e. 5,00,000 shares.
: Right issue price Rs. 25
: Last date to exercise right 31st July, 2016

Fair value of one equity share immediately prior to exercise of rights on 31.07.2016 is Rs. 35.

You are required to compute:

(i) Basic earnings per share for the year 2015-16.
(ii) Restated basic earnings per share for the year 2015-16 for right issue.
(iii) Basic earnings per share for the year 2016-17.

(5 Marks)

(c) GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol and Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. Rs. 102 Lakhs, Rs. 150 Lakhs, Rs. 130 Lakhs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.
Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

(5 Marks)

(d) WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of Rs. 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company?

(5 Marks)

Question: 2

(a) Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.20X1 for Rs. 20, 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 Rs. 50 each. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, 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%. 5,000 unvested options lapsed on 31.3.20X2. 4,000 unvested options lapsed on 31.3.20X3 and finally 3,500 unvested options lapsed on 31.3.20X4.

Following is the earning of Choice Ltd:

Year ended on	Earning (in %)
31.3.20X2	14%
31.3.20X3	10%
31.3.20X4	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

(10 Marks)

(b) Gemini Ltd. came up with public issue of 30,00,000 Equity shares of Rs. 10 each at Rs. 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.

Applications were received for 27,00,000 shares.

The marked applications were received as under:

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

(i) Compute the liability of each underwriter as regards the number of shares to be taken up.

(ii) Pass journal entries in the books of Gemini Ltd. to record the transactions relating to underwriters.

(10 Marks)

Question 3:

(a) From the following information as on 31st March, 2016 of Xeta Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 50% of the net premiums for unexpired risks and an additional reserve of Rs. 7,00,000:

Particulars	Amount (Rs.)
Reserve for unexpired risk on 31st March, 2015	15,00,000
Additional reserve on 31st March, 2015	3,00,000
Claims paid	19,20,000
Estimated liability in respect of outstanding claims on 31st March, 2015	1,95,000
Estimated liability in respect of outstanding claims on 31st March,	2,70,000

2016 Expenses of management (including Rs. 90,000 incurred in connection with claims)	8,40,000
Re-insurance premium paid	2,25,000
Re-insurance recoveries	60,000
Premiums	33,60,000
Interest and dividend (gross before TDS)	1,50,000
Profit on sale of investments	30,000
Commission	50,000

(10 Marks)

(b) As on 31st March 2016, Strong Bank Ltd. has a balance of Rs. 27 crores in "rebate on bills discounted" account. The bank provides you the following further information:

(1) During the financial year ending 31st March 2017, Strong Bank Ltd. discounted bills of exchange of Rs. 4,000 crores charging interest @ 15% p.a. and the average period of discount being 146 days.

(2) Bills of exchange of Rs. 600 crores were due for realization from the acceptors/customers after 31st March 2017, the average period outstanding after 31st March 2017, being 73 days.

You are required to pass necessary journal entries in the books of Strong Bank Ltd. for the above transactions.

(6 Marks)

(c) A Mutual Fund raised 100 lakh on April 1, 2017 by issue of 10 lakh units of Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 90 lakhs. The initial expenses amounted to Rs. 5 lakh. During April, 2017, the fund sold certain securities of cost Rs. 38 lakhs for Rs. 40 lakhs and purchased certain other securities for Rs. 28.20 lakhs. The fund management expenses for the month amounted to Rs. 4.50 lakhs of which Rs. 0.35 lakh was in arrears. The dividend earned was Rs. 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2017 was Rs. 112 lakh.

Determine NAV per unit.

(4 Marks)

Question 4:

(a) The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Shares of Rs. 10 fully paid	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Tangible Fixed Assets	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5,00,000	Cash & Bank	2,80,000
Trade Creditors	1,00,000	Preliminary Expenses	50,000
	50,50,000		50,50,000

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1 st April, 2014.

(a) The purchase consideration settled by Anu Ltd. as agreed:

(i) 4,50,000 equity Shares of Rs. 10 each issued by Anu Ltd. by valuing its share @ Rs. 15 per share.

(ii) Cash payment equivalent to Rs. 2.50 for every share in Srishti Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in Anu Ltd. at 96% as is sufficient to discharge 9% Debentures in Srishti Ltd. at a premium of 20%.

(c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at Rs. 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.
(d) The actual cost of liquidation of Srishti Ltd. was Rs. 75,000. Liquidation cost of Srishti Ltd. is to be reimbursed by Anu Ltd. to the extent of Rs. 50,000.
(e) Statutory Reserves are to be maintained for 1 more year.

You are required to:
(i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and
(ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business.

(15 Marks)

(b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for Rs. 25,00,000 against which payment was made as follows:

Liquidation expenses	Rs. 25,000
Secured Creditors	Rs. 10,00,000
Preferential Creditors	Rs. 75,000

The amount due to Unsecured Creditors was Rs. 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(5 Marks)

Question 5:

Consider the following summarized balance sheets:

	A Ltd. (As on 31st March, 2017) Rs.	**B Ltd. (As on 31st December, 2016) Rs.**		**A Ltd. (As on 31st March, 2017) Rs.**	**B Ltd. (As on 31st December, 2016) 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: Inventory	2,00,000	3,50,000
			Trade Receivables	1,50,000	2,65,000
Trade payables	3,80,000	80,000	Cash and Bank	80,000	1,05,000
Other liabilities	2,00,000	40,000			
	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 (Attempt any four)

(a) P. Ltd. has 60% voting right in Q Ltd., Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd.
R Ltd. is a Listed Company and regularly supplies goods to P Ltd.
The management of R Ltd. has not disclosed it's relationship with P Ltd.
How would you assess the situation from the view point of A.S.-18 on Related Party Disclosures?

(5 Marks)

(b) Lokraj Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2017:

Asset Funded	Interest Overdue but recognized in Profit & loss A/c		Net Book Value of Assets outstanding
	Period Overdue	Interest Amount (Rs. in crore)	(Rs. in crore)
Washing Machines	Upto 12 months	450.00	20,550.00
Air Conditioners	For 24 months	25.25	675.00
Music systems	For 30 months	15.25	225.00
Refrigerators	For 21 months	60.15	1,050.00
Air purifiers	Upto 12 months	18.25	980.00
LCD Televisions	For 45 months	420.00	21,200.00

You are required to calculate the amount of additional provision to be made.

(5 Marks)

(c) The following is the summarized Balance Sheet of Alpha Ltd. as at 31st March, 2017:

Liabilities	(Rs. in lakhs)	Assets	(Rs. in lakhs)
Share Capital:		Fixed Assets:	
Equity shares of Rs. 10 each	200.00	Land and buildings	100.00
9% Preference share fully paid up	40.00	Plant and machinery	321.00
Reserve and Surplus:		Furniture and fixture	22.00
General reserve	48.00	Vehicles	20.00
Profit and Loss	121.60	Investments	40.00
Secured loans:		Inventory	27.00
10% Debentures	20.00	Trade Receivables	19.60
12% Term loan	72.00	Cash and bank	41.60
Trade Payables	64.00		
Provision for taxation	25.60		
	591.20		591.20

Non-trade investments were 20% of the total investments.
Balances as on 1.4.2016 to the following accounts were as: Profit and Loss account Rs. 43.20 lakhs, General reserve Rs. 46 lakhs.
Alpha Ltd. desires to value goodwill. For the purpose of valuation of goodwill, the company requires you to calculate average capital employed.

(5 Marks)

(d) KG Limited furnishes the following summarized Balance Sheet as at 31st March, 2013:

Liabilities	(Rs. in lakhs)	Assets	(Rs. in lakhs)
Equity share capital (fully paid up shares of Rs. 10 each)	1,200	Machinery	1,800
		Furniture	226

Securities premium	175	Investment	74
General reserve	265	Inventory	600
Capital redemption reserve	200	Trade receivables	260
Profit & loss A/c	170	Cash at bank	740
12% Debentures	750		
Trade payables	745		
Other current liabilities	195		
	3,700		3,700

On 1st April, 2013, the company announced the buy back of 25% of its equity shares @ Rs. 15 per share. For this purpose, it sold all of its investments for Rs. 75 lakhs. On 5th April, 2013, the company achieved the target of buy back. On 30th April, 2013 the company issued one fully paid up equity share of Rs. 10 by way of bonus for every four equity shares held by the equity shareholders.

You are required to:

(1) Pass necessary journal entries for the above transactions.

(5 Marks)

(e) Write short note on Sale and Lease Back Transactions as per Accounting Standard 19.

(5 Marks)

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