(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 28.06.2020 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

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) At the end of the financial year ending on 31st December, 2017, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows:

	Probability	**Loss (Rs.)**
In respect of five cases (Win)	100%	–
Next ten cases (Win)	60%	–
Lose (Low damages)	30%	1,20,000
Lose (High damages)	10%	2,00,000
Remaining five cases		
Win	50%	–
Lose (Low damages)	30%	1,00,000
Lose (High damages)	20%	2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof.

[5 Marks]

(b) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2017.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 issued by your institute.

[5 Marks]

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

[5 Marks]

(d) 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]

Question 2:

Given below are the Profit & Loss Accounts of H Ltd. and its subsidiary Ltd. for the year ended 31st March, 2017:

	H Ltd.	**S Ltd.**
	(Rs. in lacs)	**(Rs. in lacs)**
Incomes:		
Sales and other income	5,000	1,000
Increase in Inventory	1,000	200
	6,000	1,200
Expenses:		
Raw material consumed	800	200
Wages and Salaries	800	150
Production expenses	200	100
Administrative Expenses	200	100
Selling and Distribution Expenses	200	50
Interest	100	50
Depreciation	100	50
	2,400	700
Profit before tax	3,600	500
Provision for tax	1,200	200
Profit after tax	2,400	300
Dividend paid	1,200	150
Balance of Profit	1,200	150

Other Information:

H Ltd. sold goods to S Ltd. of Rs. 120 lacs at cost plus 20%. Inventory of S Ltd. includes such goods valuing Rs. 24 lacs. Administrative expenses of S Ltd. include Rs. 5 lacs paid to H Ltd. as consultancy fees. Selling and distribution expenses of H Ltd. include Rs. 10 lacs paid to S Ltd. as commission.

H Ltd. holds 80% of equity share capital of Rs. 1,000 lacs in S Ltd. prior to 2015-2016. H Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by S Ltd. for the year 2015-2016.

Prepare a consolidated profit and loss account.

[20 Marks]

Question 3:

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 20X1 was as under:

Assets	**Hari Ltd. (Rs.)**	**Vayu Ltd. (Rs.)**
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000

Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
	13,50,000	5,70,000
Liabilities	**Hari Ltd. (Rs.)**	**Vayu Ltd. (Rs.)**
Share Capital:		
Equity Shares of Rs. 10 each	10,00,000	3,00,000
9% Preference Shares of Rs. 100 each	1,00,000	–
10% Preference Shares of Rs. 100 each	–	1,00,000
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
	13,50,000	5,70,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at Rs. 50,000, Buildings are valued at Rs. 1,50,000 and the Machinery at Rs. 1,60,000.

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

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

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 20X1.

[20 Marks]

Question 4:

(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) Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.20X1:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Authorised and issued capital:		Building at cost	
12,000, 7% Preference shares of Rs.	6,00,000	less depreciation	4,00,000

50 each (Note: Preference		Plant at cost less	2,68,000
dividend is in arrear for five		depreciation	
years)			
15,000 Equity shares of Rs. 50 each	7,50,000	Trademarks and	
	13,50,000	goodwill at cost	3,18,000
Loan	5,73,000	Inventory	4,00,000
Trade payables	2,07,000	Trade receivables	3,28,000
Other liabilities	35,000	Profit and loss A/c	4,51,000
	21,65,000		21,65,000

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.

(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.

(c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.

(d) The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.

(e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.

(f) The equity share capital cancelled is to be applied:
   i. to write off the debit balance in the profit and loss A/c; and
   ii. to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme. The nominal capital as reduced is to be increased to Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

(10 Marks)

Question 5:

(a) The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-20X2:

	Rs.
Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors Fees and allowances	35,000
Rent and taxes paid	1,00,000
Postage and telegrams	65,340
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000

Rent received	72,000
Profit on sale of investment	2,25,800
Depreciation on assets	40,000
Statutory expenses	38,000
Preliminary expenses	30,000
Auditor's fee	12,000

The following further information is given:

(1) A customer to whom a sum of Rs. 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.

(2) There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.

(3) Rebate on bill discounted on 31-03-20X1 was Rs. 15,000 and on 31-03-20X2 was Rs. 20,000.

(4) Income tax of Rs. 2,00,000 is to be provided.

The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-20X2 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-20X1.

[15 Marks]

(b) Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	**Amount**	**Assets**	**Amount**
	Rs. in 000		**Rs. in 000**
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries	
		and	
Deposits	400	group companies	100
		In debentures of	
		subsidiaries and group	100
		Companies	
		Cash and bank balances	200
		Deferred expenditure	200
	1,400		1,400

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

[5 Marks]

Question: 6 [Attempt any four]

(a) 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]

(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) 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]

(d) Mr. Raj a relative of key management personnel received remuneration of Rs. 2,50,000 for his services in the company for the period from 1.4.2016 to 30.6.2016. On 1.7.2016, he left the service.

Should the relative be identified as at the closing date i.e. on 31.3.2017 for the purposes of AS 18?

(5 Marks)

(e) PQ Ltd. grants 100 stock options to each of its 1,000 employees on 1 -4-2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is Rs. 18 on the grant date and the exercise price is Rs. 55 per share. The other information is given as under:

(i) Number of employees expected to satisfy service condition are 930 in the 1st year and 850 in the 2nd year.

(ii) 40 employees left the company in the 1st year of service and 880 employees have actually completed 2 year vesting period.

You are required to calculate ESOP cost to be amortized by PQ Ltd. in the years 2015- 2016 and 2016-2017.

(5 Marks)

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