(GI-1, GI-2, GI-3, VI-1, SI-1, VDI-1)

DATE: 18.07.2021 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) Reliance Ltd. sold machinery having WDV of Rs. 40 lakhs to Tata Consultancy Ltd. for Rs. 50 lakhs and the same machinery was leased back by Tata Consultancy Ltd. to Reliance Ltd. The lease back is operating lease. Comment if –

(a) Sale price of Rs. 50 lakhs is equal to fair value.
(b) Fair value is Rs. 60 lakhs.
(c) Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.
(d) Fair value is Rs. 40 lakhs and sale price is Rs. 50 lakhs.
(e) Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs.
(f) Fair value is Rs. 35 lakhs and sale price is Rs. 39 lakhs.

(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) A consumer goods producer has changed the product line as follows:

	Dish washing Bar	Clothes washing Bar
	(Per month)	(Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to examine whether it should it be treated as discontinuing operation as per AS 24?

(5 Marks)

(d) 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)

Question 2:

(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 3:
B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1. S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1.
On 31st October, 20X1, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B, S and T would be partners sharing profits and losses in the ratio of 3:2:1.
Their balance sheets on that date were as under :

Liabilities	S & Co.	T & Co.	Assets	S & Co.	T & Co.
Due to X & Co.	40,000	–	Cash in hand	10,000	5,000
Due to S & Co.	–	50,000	Cash at bank	15,000	20,000
Other Creditors	60,000	58,000	Due from T & Co.	50,000	–
Reserves	25,000	50,000	Due from X & Co.	–	30,000
Capitals			Other Debtors	80,000	1,00,000
B	1,20,000	–	Stock	60,000	70,000
S	80,000	1,00,000	Furniture	10,000	3,000
T	–	50,000	Vehicles	–	80,000
			Machinery	75,000	–
			Building	25,000	
	3,25,000	3,08,000		3,25,000	3,08,000

The amalgamated firm took over the business on the following terms :

(a) Goodwill of S & Co. was worth Rs. 60,000 and that of T & Co. Rs. 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(b) Building, machinery and vehicles were taken over at Rs. 50,000, Rs. 90,000 and Rs. 1,00,000 respectively.

(c) Provision for doubtful debts has to be carried forward at Rs. 4,000 in respect of debtors of S & Co. and Rs. 5,000 in respect of debtors of T & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the journal entries in the books of BST & Co. assuming that excess/deficit capital (taking T's Capital as base) with reference to share in profits are to be transferred to current accounts.

(20 Marks)

Question 4:

(a) From the following information, prepare Profit and Loss Account of Zed Bank Ltd. for the year ended 31.3. 2013:

		(Rs. in '000)
Interest and Discount		8,860
(Includes interest accrued on investments)		
Other Income		220
Interest expended		2,720
Operating expenses		2,830
Interest accrued on Investments		10
Additional Information:		
(a)	Rebate on bills discounted to be provided for	30
(b)	Classification of Advances:	
	(i) Standard assets	4,000
	(ii) Sub-standard assets	2,240

	(iii) Doubtful assets-(fully unsecured)	390
	(iv) Doubtful assets – covered fully by security	
	Less than 1 year	100
	More than 1 year, but less than 3 years	600
	More than 3 years	600
	(v) Loss assets	376
(c)	Provide 35% of the profit towards provision for taxation.	
(d)	Transfer 25% of the profit to Statutory Reserve.	

(10 Marks)

(b) Extra Ltd. (a non-listed company) furnishes you with the following Balance Sheet as at 31st March, 20X1:

(in lakhs Rs.)

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Share holders' funds**		
	A	Share capital	1	120
	B	Reserves and Surplus	2	118
2		**Non-current liabilities**		
		Long term borrowings	3	4
3		**Current liabilities**		
	A	Trade Payables		70
		Total		312
		Assets		
1		**Non-current assets**		
	A	Property, plant and Equipment		50
	B	Non-current Investments		120
2		**Current assets**		
	A	Cash and Cash equivalents		142
		Total		312

Notes to accounts

No.	Particulars		Rs.
1	**Share Capital**		
	Authorized, issued and subscribed capital:		
	Equity shares of Rs. 10 each fully paid		100
	9% Redeemable preference shares of Rs. 100 each fully paid		20
	Total		120
2	**Reserves and Surplus**		
	Capital reserves		8
	Revenue reserves		50
	Securities premium		60
	Total		118
3	**Long term borrowings**		
	10% Debentures		4

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.

(ii) It also bought back 3 lakhs equity shares of Rs. 10 each at Rs. 30 per share. The payment for the above was made out of huge bank balances.

(iii) Included in its investment were "investments in own debentures" costing Rs. 2 lakhs (face value Rs. 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.

(iv) The company had 1,00,000 equity stock options outstanding on the above- mentioned date, to the employees at Rs. 20 when the market price was Rs. 30 (This was included under current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.

(v) Pass the journal entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.20X1.

(10 Marks)

Question 5:

(a) From the following data, determine in each case:

(1) Minority interest at the date of acquisition and at the date of consolidation.

(2) Goodwill or Capital Reserve.

(3) Amount of holding company's profit in the consolidated Balance Sheet assuming holding company's own Profit & Loss Account to be Rs. 2,00,000 in each case:

Case	Subsidiary Company	% shares owned	Cost	Date of acquisition 1.1.20X1		Consolidation Date 31.12.20X1	
				Share Capital	Profit & Loss Account	Share Capital	Profit & Loss Account
			Rs.	Rs.	Rs.	Rs.	Rs.
Case 1	A	90%	1,40,000	1,00,000	50,000	1,00,000	70,000
Case 2	B	85%	1,04,000	1,00,000	30,000	1,00,000	20,000
Case 3	C	80%	56,000	50,000	20,000	50,000	20,000
Case 4	D	100%	1,00,000	50,000	40,000	50,000	55,000

(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 6: (Answer any four from the following)-

(a) 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)

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

(5 Marks)

(c) 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)

(d) 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)

(e) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2017 at a cost of Rs. 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2017:

	Rs. in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets Up by 20%
Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ Rs.20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(5 Marks)

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