(GI-1, GI-2, GI-3, GI-6, VI-1, SI-1, VDI-1)

DATE: 20.09.2021 **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) During the year 20X1-20X2, Raj Ltd. was sued by a competitor for Rs. 15 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Raj Ltd. provided for a sum of Rs. 10 lakhs in its financial statements for the year ended 31st March, 20X2. On 18th May, 20X2, the Court decided in favour of the party alleging infringement of the trademark and ordered Raj Ltd. to pay the aggrieved party a sum of Rs. 14 lakhs. The financial statements were prepared by the company's management on 30th April, 20X2, and approved by the board on 30th May, 20X2. Discuss.

(5 Marks)

(b) The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019:

(i) Depreciation as per books Rs. 2,80,000
Depreciation for tax purposeRs. 1,90,000
The above depreciation does not include depreciation on new additions.

(ii) A new machinery purchased on 1.4.18 costing Rs. 1,20,000 on which 100% depreciation is allowed in the 1st year for tax purpose whereas Straight-line method is considered appropriate for accounting purpose with a life estimation of 4 years.

(iii) The company has made a profit of Rs. 6,40,000 before depreciation and taxes.

(iv) Corporate tax rate of 40%.

Prepare relevant extract of statement of Profit and Loss for the year ending 31-3-2019 and also show the effect of above items on deferred tax liability/asset as per AS 22.

(5 Marks)

(c) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments: **(Rs. in Crore)**

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

(5 Marks)

(d) During 20X1-X2, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows:

Particular	Rs.
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the products (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market.

You are required to state how the above referred cost to be recognized in the books of accounts.

(5 Marks)

Question 2:

(a) Mohan Ltd. gives you the following information as on 31st March, 2020:

	Rs.
Share capital:	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

(i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

(ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.

(iii) Remaining equity shares of the new company are issued to public at par fully paid up.

(iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

(15 Marks)

(b) Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue Rs. 40 lakhs), on 24 accounts for three months (amount overdue Rs. 24 Iakhs), on 10 accounts for more than 30 months (amount overdue Rs. 20 lakhs) and on 4 accounts for more than three years (amount over due Rs. 20 lakhs-already identified as sub-standard assets) and one account of Rs. 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount Rs. 6 lakhs) for more than fourteen months and other are identified as sub-standard asset for a period of less than fourteen months.
Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(5 Marks)

Question 3:
On 31st March, 20X1, the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1

Particulars	Note No.	H Ltd. (Rs. in Lacs)	S Ltd. (Rs. in Lacs)
I. Equity and Liabilities			
(1) **Shareholder's Funds**			
(a) Share Capital	1	12,000	4,800
(b) Reserves and Surplus	2	5,499	3,000
(2) **Current Liabilities**			
(a) Trade payables		1,461	854
(b) Short term provisions	3	855	394
(c) Other current liabilities	4	1,572	160
Total		21,387	9,208
II. Assets			
(1) **Non-current assets**			
Property, Plant and Equipment	5	9,468	5,486
Non-current Investments (Shares in S Ltd.)		3,000	
(2) **Current assets**			
(a) Inventories		3,949	1,956
(b) Trade receivables		2,600	1,363
(c) Cash and cash equivalents		1,490	204
(d) Short term loans and advances	6	520	
(e) Other current assets	7	360	199
Total		21,387	9,208

Notes to Accounts

		H Ltd. (Rs. in lacs)	S Ltd. (Rs. in lacs)
1.	**Share Capital**		
	Authorized share capital	15,000	6,000
	Equity shares of Rs. 10 each, fully paid up		
	Issued and Subscribed:		
	Equity shares of Rs. 10 each, fully paid up	12,000	4,800
	Total	12,000	4,800

2.	**Reserves and surplus**		
	General Reserve	2,784	1,380
	Profit and Loss Account:	2,715	1,620
	Total	5,499	3,000
3.	**Short term provisions**		
	Provision for Taxation	855	394
4.	**Other current liabilities**		
	Bills Payable	372	160
	Dividend payable	1,200	--
		1,572	160
5.	**Property, plant and equipment**		
	Land and Buildings	2,718	-
	Plant and Machinery	4,905	4,900
	Furniture and Fittings	1,845	586
	Total	9,468	5,486
6.	**Short term loans and advances**		
	Sundry Advances	520	--
7.	**Other current assets**		
	Bills Receivable	360	199

The following information is also provided to you:

(a) H Ltd. purchased 180 lakh shares in S Ltd. on 31st March, 20X0 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakh and Rs.1,200 lakh respectively.

(b) On 1st April, 20X0, S Ltd. declared a dividend @ 20% for the year ended 31st March, 20X0. H Ltd. credited the dividend received by it to its Profit and Loss Account.

(c) On 1st January, 20X1, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 20X0.

(d) On 31st March, 20X1, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only Rs. 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.

(e) On 31st March, 20X1, S Ltd.'s inventory included goods which it had purchased for Rs. 100 lakh from H Ltd. which made a profit @ 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 20X1.

(20 Marks)

Question 4:

(a) A, B, C, and D sharing profits in the ratio of 4:3:2:1 decided to dissolve their partnership on 31st March 20X1 when their balance sheet was as under:

Liabilities		**Rs.**	**Assets**	**Rs.**
Creditors		15,700	Bank	535
Employees Provident Fund		6,300	Debtors	15,850
Capital Accounts:			Stock	25,200
A	40,000		Prepaid Expenses	800
B	20,000	60,000	Plant & Machinery	20,000
			Patents	8,000
			C's Capital A/c	3,200
			D's Capital A/c	8,415
		82,000		82,000

Following information is given to you: -

1. One of the creditors took some of the patents whose book value was Rs. 5,000 at a valuation of Rs. 3,200. Balance of the creditors were paid at a

discount of Rs. 400.

2. There was a joint life policy of Rs. 20,000 (not mentioned in the balance sheet) and this was surrendered for Rs. 4,500.
3. The remaining assets were realized at the following values: - Debtors Rs. 10,800; Stock Rs. 15,600; Plant and Machinery Rs. 12,000; and Patents at 60% of their book-values. Expenses of realization amounted to Rs. 1,500.

D became insolvent and a dividend of 25 paise in a rupee was received in respect of the firm's claim against his estate. Prepare necessary ledger accounts.

(15 Marks)

(b) From the following information, compute the amount of provisions to be made inthe Profit and Loss Account of a Commercial bank:

	Assets	**Rs. in lakhs**
(i)	Standard (Value of security Rs. 6,000 lakhs)	7,000
(ii)	Sub-standard	3,000
(iii)	Doubtful	
	(a) Doubtful for less than one year (Realisable value of security Rs. 500 lakhs)	1,000
	(b) Doubtful for more than one year, but less than 3 years(Realisable value of security Rs. 300 lakhs)	500
	(c) Doubtful for more than 3 years (No security)	300

(5 Marks)

Question 5:

(a) A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk-adjusted asset and risk weighted assets ratio –

Capital Funds:	**(Figures in Rs. lakhs)**
Equity Share Capital	4,80,00
Statutory Reserve	2,80,00
Capital Reserve (of which Rs. 280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
Assets:	
Cash Balance with RBI	4,80
Balances with other Bank	12,50
Claims on Banks	28,50
Other Investments	782,50
Loans and Advances:	
(i) Guaranteed by government	128,20
(ii) Guaranteed by public sector undertakings of Government of India	702,10
(iii) Others	52,02,50
Premises, furniture and fixtures	182,00
Other Asset	201,20
Off-Balance Sheet Items:	
Acceptances, endorsements and letters of credit	37,02,50

(10 Marks)

(b) At the beginning of year 1, an enterprise grants 10,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is Rs. 40. However, the exercise price drops to Rs. 30 if the earnings of the enterprise increase by at-least an averageof 10 per cent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of Rs. 30, is Rs. 16 per option. If the exercise price

is Rs. 40, the enterprise estimates that the stock options have a fair value of Rs. 12 per option.
During year 1, the earnings of the enterprise increased by 12 per cent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of Rs. 30.
During year 2, the earnings of the enterprise increased by 13 per cent, and the enterprise continues to expect that the earnings target will be achieved.
During year 3, the earnings of the enterprise increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested stock options have an exercise price of Rs. 40.
You are required to calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

(5 Marks)

(c) Rain Ltd. went into liquidation on 31st March, 20X1. Following are the details regarding share capital of the company:-

I. 30,000 Equity shares of Rs. 100 each, Rs. 80 paid up.
II. 80,000 Equity shares of Rs. 50 each, Rs. 25 paid up.
III. 4,00,000 Equity shares of Rs. 10 each, fully paid up.

Surplus available with the liquidator after payment of all the liabilities Rs. 24,00,000. Distribute this surplus money among different categories of shareholders.

(5 Marks)

Question 6: (Answer any four)

(a) Milk Ltd. entered into an agreement with Curd Ltd. for sale of goods of Rs. 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2017. On the same day Curd Ltd. entered into another agreement with Milk Ltd. to resell the same goods at Rs. 10.80 lakhs on 1st August, 2017. State the treatment of this transaction in the financial statements of Milk Ltd. as on 31.03.2017. The pre-determined re- selling price covers the holding cost of Curd Ltd. Give the Journal Entries as on 31.03.2017 in the books of Milk Ltd.

(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) Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court-

1. Furniture and Fixtures which stood at the books at Rs. 1,50,000 to be written down to Rs. 95,000. The freehold premises which was valued at Rs. 7,00,000 showed an appreciation of Rs. 55,000.

2. Plant and machinery showed fall in value of Rs. 89,000, to be recorded in the books. Investment at Rs. 2,00,000 was brought down to the existing market value at Rs. 1,05,000.
3. Debenture holders accepted to receive the following in lieu of their present 9% debentures of Rs. 2,50,000-
   a. 1/5th of the total to be paid in cash to them.
   b. To take over the land and buildings of value Rs. 72,000.
   c. To forgo the remaining unpaid portion as a policy of reconstruction.

   Write off the profit and loss A/c debit balance at Rs. 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of Rs. 1,50,000 can be utilized to write off the losses under reconstruction scheme.

   Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

(5 Marks)

(d) Anu Ltd. (a non-listed company) furnishes you with the following balance sheet as at 31st March, 20X1:

(in crores Rs.)

		Particulars		**Notes**	**Rs.**
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	100
	B	Reserves and Surplus		2	300
2		**Current liabilities**			
	A	Trade Payables			40
			Total		440
		Assets			
1		**Non-current assets**			
	A	Property, plant and equipment		3	-
	B	Non-Current Investments		4	100
2		**Current assets**			
	A	Trade receivables			140
	B	Cash and Cash equivalents			200
			Total		440

Notes to accounts

No.	**Particulars**		**Rs.**
1	**Share Capital**		
	Authorized, issued and subscribed share capital:		
	12% Redeemable preference shares of Rs. 100 each, fully paid up		75
	Equity shares of Rs. 10 each, fully paid up		25
	Total		100
2	**Reserves and Surplus**		
	Capital reserve		15
	Securities premium		25
	Revenue reserves		260
	Total		300

3	**Property, Plant and Equipment**		
	PPE Cost		100
	Less: Provision for depreciation		(100)
	Net carrying value		NIL
4	**Non-Current Investments**		
	Non-current investments at cost (Market value Rs. 400 Cr.)		<u>100</u>

The company redeemed preference shares on 1st April, 20X1. It also bought back 50 lakhs equity shares of Rs. 10 each at Rs. 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are asked to:

Pass journal entries to record the above.

(5 Marks)

(e) "The rights of a shares of a particular class, once issued, can be varied or altered."

Comment on this statement in line with the provisions of the Companies Act.

(5 Marks)

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