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

DATE: 02.11.2021 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.

Answer 1:

(a) Treatment as per AS 4 'Contingencies and Events Occurring After the Balance Sheet Date'

(a)	The sale of property should be treated as an adjusting event since contracts had been exchanged prior to the year-end. The effect of the sale should be reflected in the financial statements ended on 31.3.2020 and the profit on sale of property Rs. 1,50,000 would be considered.	{1 1/2 M}
(b)	The event is a non-adjusting event since it occurred after the year-end and doesnot relate to the conditions existing at the year-end. However, it is necessary to consider the validity of the going concern assumption having regard to the extent of insurance cover. Also, since it is said that the loss would be fully recovered by the insurance company, the fact should be disclosed by way of a note to the financial statements.	{1 1/2 M}
(c)	On the basis of evidence provided, the claim against the company will not succeed. Thus, Rs. 8 million should not be provided in the account, but should be disclosed by means of a contingent liability with full details of the facts. Provision should be made for legal fee expected to be incurred to the extent that they are not expected to be recovered.	{2 M}

Answer:

(b) As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", a provision should be recognized when (a) An enterprise has a present obligation as a result ofa past event and (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (c) A reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision should be recognized. **{3 M}**

From the above, it is clear that for the contingencies considered by the company, neither a present obligation exists because of past event, nor a reliable estimate can be made of the amount of the obligation. Accordingly, a provision cannot be recognized for such contingencies under the facts and circumstances of the case. **{2 M}**

Answer:

(c) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are computed below:

(Amount in Rs. lakhs)

	Up to the reporting date	*Recognized in previous years*	*Recognized in current year*
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340

Expenses (8,050 x 26%)	2,093	-	2,093	
Profit	247	-	**247**	}{1 M}
Year 2				
Revenue (9,200 x 74%) Expenses (8,200 x 74%)	6,808 6,068	2,340 2,093	4,468 3,975	
Profit	740	247	**493**	}{1 M}
Year 3				
Revenue (9,200 x 100%) Expenses (8,200 x 100%)	9,200 8,200	6,808 6,068	2,392 2,132	
Profit	1,000	740	**260**	}{1 M}

Working Note:

	Year 1	*Year 2*	*Year 3*	
Revenue after considering variations *Less:* Estimated profit for whole contract	9,000 950	9,200 1,000	9,200 1,000	
Estimated total cost of the contract (A)	8,050	8,200	8,200	
Actual cost incurred upto the reporting date (B)	2,093	6,068 (6,168-100)	8,200 (8,100+100)	
Degree of completion (B/A)	**26%**	**74%**	**100%**	}{2 M}

Answer:

(d) (i) Annual lease rent

Total lease rent

$$= 130\% \text{ of Rs. } 1,50,000 \times \frac{\text{Output during lease period}}{\text{Total output}}$$

= 130% of Rs. 1,50,000 x (40,000 +50,000+ 60,000)/(40,000 + 50,000 + 60,000 + 80,000 + 70,000)

= 1,95,000 x 1,50,000 units/3,00,000 units = **Rs. 97,500** }{1 M}

Annual lease rent = Rs. 97,500 / 3 = **Rs. 32,500** }{1 M}

(ii) **Lease rent Income to be recognized in each operating year**

Total lease rent should be recognized as income in proportion of output during lease period,
i.e. in the proportion of 40 : 50 : 60.
Hence income recognized in years 1, 2 and 3 will be as:

Year 1 Rs. 26,000, }{1 M}
Year 2 Rs. 32,500 and }{1 M}
Year 3 Rs. 39,000. }{1 M}

Answer 2:

(a) **Shareholding pattern**

Particulars	**Number of Shares**	**% of holding**
a. P Ltd.		
(i) Purchased on 31.03.2015	1,05,000	
(ii) Bonus Issue (1,05,000/2)	52,500	
Total	1,57,500	70%
b. Minority Interest	67,500	30%

{1 M}

Calculations of (i) Cost of Control/Capital Reserve; (ii) Minority Interest; (iii) Consolidated Profit and Loss Account as on 31st March, 2021:

(a) Before issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.	
	Investment in Q Ltd.		12,00,000	
	Less: Face value of investments	10,50,000		
	Capital profits (W.N.)	63,000	(11,13,000)	
	Cost of control		**87,000**	}{$1^{1/2}$ M}
(ii)	Minority Interest		Rs.	
	Share Capital		4,50,000	
	Capital profits (W.N.)		27,000	
	Revenue profits (W.N.)		6,79,500	
			11,56,500	}{$1^{1/2}$ M}
(iii)	Consolidated profit and loss account – P Ltd.		Rs.	
	Balance		15,75,000	
	Add: Share in revenue profits of Q Ltd. (W.N.)		15,85,500	
			31,60,500	}{$1^{1/2}$ M}

(b) Immediately after issue of bonus shares

(i)	Cost of control/capital reserve	Rs.	Rs.	
	Face value of investments (Rs. 10,50,000 + Rs. 5,25,000)	15,75,000		
	Capital Profits (W.N.)	63,000	16,38,000	
	Less: Investment in Q Ltd.		(12,00,000)	
	Capital reserve		**4,38,000**	}{$1^{1/2}$ M}
(ii)	Minority Interest		Rs.	
	Share Capital (Rs. 4,50,000 + Rs. 2,25,000)		6,75,000	
	Capital Profits (W.N.)		27,000	
	Revenue Profits (W.N.)		4,54,500	
			11,56,500	}{$1^{1/2}$ M}
(iii)	Consolidated Profit and Loss Account – P Ltd.		Rs.	
	Balance		15,75,000	
	Add: Share in revenue profits of Q Ltd. (W.N.)		10,60,500	
			26,35,500	}{$1^{1/2}$ M}

Working Note:

Analysis of Profits of Q Ltd.

	Capital Profits	Revenue Profits	
	(Before and after issue of bonus shares) Rs.	Before Bonus Issue Rs.	After Bonus Issue Rs.
Pre-incorporation profits	30,000		
Profit and loss account on 31.3.2015	60,000		
	90,000		
General reserve*		19,05,000	19,05,000
Less: Bonus shares			(7,50,000)
			11,55,000

Profit for period of 1st April, 2015 to 31st March, 2021 (Rs. 4,20,000 – Rs. 60,000)		3,60,000	3,60,000
		22,65,000	**15,15,000**
P Ltd.'s share (70%)	**63,000**	**15,85,500**	**10,60,500**
Minority's share (30%)	**27,000**	**6,79,500**	**4,54,500**

{ 2 item x 1 M = 2 M}

{ 6 item x 1/2 M = 3 M}

*Share of P Ltd. in General reserve has been adjusted in Consolidated Profit and Loss Account.

Answer:

(b) Under the following circumstances, an LLP can be wound up by the Tribunal:

(i) If the LLP decides that it should be wound up by the Tribunal; **}{1 M}**

(ii) If for a period of more than six months, the number of partners of the LLP isreduced below two; **}{1 M}**

(iii) If the LLP is unable to pay its debts; **}{1 M}**

(iv) If the LLP has acted against the interests of the integrity and sovereignty ofIndia, the security of the state or public order; **}{1 M}**

(v) If the LLP has defaulted in the filing of the Statement of Account and Solvencywith the Registrar for five consecutive financial years; **}{1 M}**

Or

(v) If the Tribunal is of the opinion that it is just and equitable that the LLP bewound up. **}{1 M}**

Answer 3:

(a) Liquidator's Final Statement of Account

Receipts	Rs.	**Payments**	Rs.
Assets realized	**3,80,400**	Liquidation Expenses	**1,000**
Call on contributories: 2,000	**20,000**	Liquidator's Remuneration	**400**
Equity Shares @ Rs. 10 per share		Unsecured Creditors	**99,000**
(W.N.)		Preference Shareholders	**3,00,000**
	4,00,400		4,00,400

{ 6 item x 1 M = 6 M}

Working Notes:

(i) **Calculation of Shortage of funds**	Rs.
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	**19,600**

}{1 M}

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} = \text{\`}19{,}600 \times \frac{100}{100 - 2}$$

$$= \frac{\text{\`}19{,}600 \times 100}{98} = \text{\`}\ 20{,}000$$

{1 M}

(iii) Uncalled Capital @ Rs. 25 on 2,000 shares = Rs. 50,000 **}{1/2 M}**

(iv) Amount of Calls to be made from equity shareholders (least of funds required and uncalled capital) i.e. Rs. 20,000 i.e. Rs. 10 per Share **{1/2 M}**

(v) Commission on Call = Rs. 20,000 x 2/100 = Rs. 400 **{1 M}**

Answer:

(b)

Date	Particulars		Rs.	Rs.	
31.3.2017	Employees compensation expense A/c	Dr.	17,10,000		{1/2 M}
	To ESOS outstanding A/c			17,10,000	
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,200 employees at a discount of Rs. 30 each,				
	amortized on straight line basis overvesting years (Refer W.N.)				
	Profit and Loss A/c	Dr.	17,10,000		{1/2 M}
	To Employees compensationexpenses A/c			17,10,000	
	(Being expenses transferred to profit andLoss A/c)				
31.3.2018	Employees compensation expenses A/c	Dr.	4,70,000		{1/2 M}
	To ESOS outstanding A/c			4,70,000	
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)				
	Profit and Loss A/c	Dr.	4,70,000		{1/2 M}
	To Employees compensationexpenses A/c			4,70,000	
	(Being expenses transferred to profit andLoss A/c)				
31.3.2019	Employees compensation Expenses A/c	Dr.	9,70,000		{1/2 M}
	To ESOS outstanding A/c			9,70,000	
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)				
	Profit and Loss A/c		9,70,000		{1/2 M}
	To Employees compensationexpenses A/c			9,70,000	
	(Being expenses transferred to profit andLoss A/c)				
2019-20	Bank A/c (1,00,000 x Rs. 30)	Dr.	30,00,000		{2 M}
	ESOS outstanding A/c [(31,50,000/1,05,000) x 1,00,000]	Dr.	30,00,000		
	To Equity share capital (1,00,000 x Rs. 10)			10,00,000	
	To Securities premium A/c(1,00,000 x Rs. 50)			50,00,000	
	(Being 1,00,000 options exercised at anexercise price of Rs. 30 each)				
31.3.2020	ESOS outstanding A/c	Dr.	1,50,000		{2 M}
	To General Reserve A/c			1,50,000	
	(Being ESOS outstanding A/c on lapse of 5,000 options at the end of exercise ofoption period transferred to General Reserve A/c)				

Working Note:

Statement showing compensation expense to be recognized at the end of:

Particulars	Year 1 (31.3.2017)	Year 2 (31.3.2018)	Year 3 (31.3.2019)

Number of options expected tovest	1,14,000 options	1,09,000 options	1,05,000 options
Total compensation expenseaccrued (60-30)	Rs. 34,20,000	Rs. 32,70,000	Rs. 31,50,000
Compensation expense of theyear	34,20,000 x 1/2 = Rs. 17,10,000	32,70,000 x 2/3 = Rs. 21,80,000	Rs. 31,50,000
Compensation expenserecognized previously	Nil	Rs. 17,10,000	Rs. 21,80,000
Compensation expenses to berecognized for the year	**Rs. 17,10,000**	**Rs. 4,70,000**	**Rs. 9,70,000** }{3 M}

Answer 4

(a) (i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

	Galaxy Ltd.	*Glory Ltd.*
Purchase Consideration:	***Rs.***	***Rs.***
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	-	(3,30,000)
Trade payables	(4,20,000)	-
Net Assets taken over	**19,60,000**	**7,20,000**
To be satisfied by issue of shares of Glorious.Ltd. @ Rs. 10 each	1,96,000	72,000

{ 2 item x $1^{1/2}$ M = 3 M}

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

			Particulars		*Note No*	*Amount*
						Rs.
			EQUITY AND LIABILITIES			
1			Shareholders' funds			
	(a)		Share capital		1	**26,80,000** }{1 M}
	(b)		Reserves and surplus		2	**30,000** }{1 M}
2			Non-current liabilities			
	(a)		Long-term borrowings		3	**3,00,000** }{1 M}
3			Current liabilities			
	(a)		Trade payables			**4,20,000** }{1 M}
				Total		34,30,000
			ASSETS			
1			Non-current assets			
	(a)					
		i	Property, plant and equipment		4	**13,16,000** }{1 M}
		ii	Intangible assets		5	**6,16,000** }{1 M}
2			Current assets			
	(a)		Inventories		6	**7,74,000** }{1 M}
	(b)		Trade receivables			**4,62,000** }{1 M}
	(c)		Cash and cash equivalents		7	**2,62,000** }{1 M}
						34,30,000
				Total		34,30,000

Notes to accounts:

		Rs.	Rs.	
1.	Share Capital			
	Equity share capital			
	2,68,000 shares of Rs. 10 each		**26,80,000**	}{1 M}
	(All the above shares are issued for consideration otherthan cash)			
2.	Reserves and surplus			
	Securities Premium			
	(10% premium on debentures of Rs. 3,00,000)		**30,000**	}{1 M}
3.	Long-term borrowings			
	Secured			
	8% 3,000 Debentures of Rs. 100 each		**3,00,000**	}{1 M}
4.	Property Plant and Equipment			
	Freehold property			
	Galaxy Ltd.	5,88,000		
	Glory Ltd.	3,36,000	9,24,000	
	Plant and Machinery			
	Galaxy Ltd.	2,52,000		
	Glory Ltd.	84,000	3,36,000	
	Motor vehicles - Galaxy Ltd.		56,000	
			13,16,000	}{1 M}
5.	Intangible assets			
	Goodwill			
	Galaxy Ltd.	4,48,000		
	Glory Ltd.	1,68,000	**6,16,000**	}{1 M}
6	Inventories			
	Galaxy Ltd.	3,36,000		
	Glory Ltd.	4,38,000	**7,74,000**	}{1 M}
7	Cash and cash equivalents			
	Galaxy Ltd.	2,38,000		
	Glory Ltd.(As per working note)	24,000	**2,62,000**	}{1 M}

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

		Rs.
Cash balance as at 31st March,2020		1,04,000
Add: Received from debtors		1,10,000
		2,14,000
Less: paid to creditors		(1,80,000)
		34,000
Less: Commission to liquidators		
On Debtors @ 5%	5,500	
On Creditors @ 2.5%	4,500	(10,000)
		24,000

{1 M}

Answer 5:

(a) Balance Sheet as on 30.6.20X2

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Accounts:			Machinery	1,50,000	
A's balance as on 1.1.20X2	1,17,000		*Less*: Depreciation@ 10% p.a.	(7,500)	**1,42,500**

Add: Profit for 6 months	11,800		Leasehold premises	34,000	
	1,28,800		*Less*: Written-off@5%	(1,700)	**32,300**
Less: Drawings for 6 months	(5,900)	**1,22,900**	Stock		**75,000**
B's balance as on 1.1.20X2	1,11,000		Sundry Debtors		**60,000**
Add: Profit for 6 months	11,800				
	1,22,800				
Less: Drawings for 6 months	(5,900)	**1,16,900**			
Sundry Creditors		**50,000**			
Bank overdraft		**20,000**			
		3,09,800			3,09,800

{8 item x 1/2 M = 4 M}

(b) Realization Account

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	**1,42,500**	By Sundry Creditors A/c	**50,000**
To Leasehold Premises A/c	**32,300**	By Bank Overdraft A/c	**20,000**
To Stock A/c	**75,000**	By Limited Company A/c (W.N.2)	**3,39,800**
To Sundry Debtors A/c	**60,000**		
To A's Capital A/c	**50,000**		
To B's Capital A/c	**50,000**		
	4,09,800		4,09,800

{9 item x 1/2 M = $4^{1/2}$ M}

(c) Partners' Capital Accounts

Date		Particulars	A	B	Date		Particulars	A	B
			Rs.	Rs.				Rs.	Rs.
1.1.X2	To	Profit & Loss A/c	13,000	13,000	1.1.X2	By	Balance b/d	1,40,000	1,30,000
	To	Drawings A/c	10,000	6,000					
29.6.X2	To	Balance c/d	1,17,000	1,11,000					
			1,40,000	1,30,000				1,40,000	1,30,000
30.6.X2	To	Drawings A/c	5,900	5,900	30.6.X2	By	Balance b/d	1,17,000	1,11,000
	To	Shares in Limited Company A/c	**1,72,900**	**1,66,900**	30.6.X2	By	Profit & Loss Appropriation A/c	11,800	11,800
						By	Realization A/c	50,000	50,000
			1,78,800	1,72,800				1,78,800	1,72,800

{2 item x 3/4 M = $1^{1/2}$ M}

Working Notes:

(1) Ascertainment of profit for the 6 months ended 30th June, 20X2

Closing Assets:	Rs.	Rs.
Stock		75,000
Sundry Debtors		60,000
Machinery less depreciation		1,42,500

Leasehold premises less written off		32,300
		3,09,800
Less: Closing liabilities:		
Sundry Creditors	50,000	
Bank overdraft	20,000	(70,000)
Closing Net Assets		2,39,800
Less: Opening combined capital:		
A – Rs. (1,40,000 – 13,000 – 10,000)	1,17,000	
B – Rs. (1,30,000 – 13,000 – 6,000)	1,11,000	(2,28,000)
Profit before adjustment of drawings		11,800
Add: Combined drawings during the 6 months (equal toprofit)		11,800
Profit for 6 months		**23,600** }{1 M}

(2) Ascertainment of purchase consideration:

Closing net assets (as above) Rs. 2,39,800 + Goodwill Rs. 1,00,000 = Rs. 3,39,800. **}{1 M}**

Answer:

(b)

In the books of Anmol bank Ltd.
Journal Entries

Rs. in crores

Particulars		*Debit*	*Credit*	
Rebate on bills discounted A/c	Dr.	40		{1 M}
To Discount on bills A/c			40	
(Being the transfer of opening balance in 'Rebate on bills discounted A/c' to 'Discount on bills A/c')				
Bills purchased and discounted A/c	Dr.	5,000		
To Discount on bills A/c			280	{1 M}
To Clients A/c			4,720	
(Being the discounting of bills of exchange during the year)				
Discount on bills A/c	Dr.	14		{1 M}
To Rebate on bills discounted A/c			14	
(Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)				
Discount on bills A/c	Dr.	306		{1 M}
To Profit and Loss A/c			306	
(Being the amount of income for the year from discountingof bills of exchange transferred to Profit and loss A/c)				

Working Notes:

1. **Discount received on the bills discounted during the year**
   Rs. 5,000 crores x 14/100 x 146/365 = Rs. 280 crores }{1 M}
2. **Calculation of rebate on bill discounted**
   Rs. 500 crores x 14/100 x 73/365 = Rs. 14 crores }{1 M}
3. Income from bills discounted transferred to Profit and Loss A/c would be calculated by preparing Discount on bills A/c.

Discount on bills A/c

Rs. in rores

Date	Particulars	Amount	Date	Particulars	Amount
31.3.2019	To Rebate on bills discounted	14	1.4.2018	By Rebate on bills discounted b/d	40
"	To Profit and LossA/c (Bal. Fig.)	306	2018-19	By Bills purchased and discounted	280
		320			320

{2 M}

Answer 6:

(a) **(i)** According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Hence, Mr. Raj, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021. {3 M}

(ii) As per AS 18, transactions of X Ltd. with its associate company for the first quarter ending 30.06.2020 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not be reported. {2 M}

Answer:

(b) **Journal Entries in the books of S Ltd.**

2020		Dr. Rs.	Cr. Rs.
April 1	Equity Share Capital A/c (Rs. 10) Dr.	5,00,000	
	To Equity Share Capital A/c		3,00,000
	To 8% Preference Equity Share Capital A/c		60,000
	To 10% Second Debentures A/c		40,000
	To Capital Reduction /Reconstruction A/c		1,00,000
	(Being reduction of equity shares to 3/5 shares, issue of preference shares and debentures as per Reconstruction Scheme dated...)		
	Capital Reduction / Reconstruction A/c Dr.	1,00,000	
	To Building A/c		50,000
	To Plant and Machinery A/c		20,000
	To Goodwill A/c		30,000
	(Being value of building and plant and machineryreduced and goodwill written off completely.)		
	Bank A/c Dr.	1,00,000	
	To 8% First Debentures A/c		1,00,000
	(Being Rs. 1,00,000 debentures issued)		

{2 M} {2 M} {1 M}

Answer:

(c) As per AS 20, "Earnings Per Share", the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or less number of shares outstanding at any time. For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period. {2 M}

Weighted average number of equity shares:

7,20,000 X 5/12	= 3,00,000 shares
9,60,000 X 5/12	= 4,00,000 shares
8,40,000 X 2/12	= 1,40,000 shares
	= 8,40,000 shares

}{3 M}

Answer:

(d) Since the company is not appealing against the addition of Rs. 1.70 crore (Rs. 5.40 crore less Rs. 3.70 crore), therefore, the same should be provided/ expensed off in its accounts for the year ended on 31st March, 2020. However, the amount paid under protest can be kept under the heading 'Long-term Loans & Advances / Short-term Loans and Advances' as the case may be alongwith disclosure as contingent liability of Rs. 3.70 crore. **{5 M}**

Answer 6:

(e) **Calculation of provision required on advances as at year end as per the Non-Banking Financial Company – Non-Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016**

	Amount Rs. in lakhs	Percentage of provision	Provision Rs. in lakhs
Standard assets	18,400	0.25	46.00
Sub-standard assets	1,250	10	125.00
Secured portions of doubtful debts			
upto one year	300	20	60.00
one year to three years	90	30	27.00
more than three years	30	50	15.00
Unsecured portions of doubtful debts	92	100	92.00
Loss assets	47	100	47.00
			412.00

}{5 M}

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