(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.

Question 1:

(a) XYZ Ltd. operates its business into various segments. Its financial year ended on 31st March, 2020 and the financial statements were approved by their approving authority on 15th June, 2020. The following material events took place:

a. A major property was sold (it was included in the balance sheet at Rs. 25,00,000) for which contracts had been exchanged on 15th March, 2020. The sale was completed on 15th May, 2020 at a price of Rs. 26,50,000.

b. On 2nd April, 2020, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of Rs. 10 million would be fully covered by the insurance company.

c. A claim for damage amounting to Rs. 8 million for breach of patent had been received by the entity prior to the year-end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of XYZ Ltd. for the year ended 31st March, 2020.

(5 Marks)

(b) A company, incorporated as NPO under the Companies Act, is having main objective to promote the trade by organizing trade fairs / exhibitions. While organizing the trade fair and exhibitions, it decided to charge 5% contingency charges for the participants/outside agencies on the income received from them by the company, while in the case of fairs organized by outside agencies, 5% contingency charges are levied separately in the invoice, the contingency charges in respect of fairs organized by the company itself are inbuilt in the space rent charged from the participants. Both are credited to Income and Expenditure Account of the company.

The intention of levying these charges is to meet any unforeseen liability, which may arise in future. The instances of such unforeseen liabilities could be on account of injury/loss of life to visitors/ exhibitors, etc., due to fire, terrorist attack, stampede, natural calamities and other public and third party liability. The chances of occurrence of these events are high because of large crowds visiting the fair. The decision to levy 5% contingency charges was based on assessment only as actual liability on this account cannot be estimated.

The accounting treatment and disclosure was made by the company in its financial statements as: (i) 5% contingency charges are treated as income and matching provision for the same is also being made in accounts and (ii) suitable disclosure to this effect is also made in the notes forming part of accounts.

You are required to comment whether creation of provision for contingencies considering the facts and circumstances of the case is required in line with AS 29.

(5 Marks)

(c) A construction contractor has a fixed price contract for Rs. 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount Rs. in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200
Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

(5 Marks)

(d) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.

You are required to compute: (i) Annual Lease Rent and (ii) Lease Rent income to be recognized in each operating year.

(5 Marks)

Question 2:

(a) On 31st March, 2015, P Ltd. acquired 1,05,000 shares of Q Ltd. for Rs. 12,00,000. The position of Q Ltd. on that date was as under:

	Rs.
Property, plant and equipment	10,50,000
Current Assets	6,45,000
1,50,000 equity shares of Rs. 10 each fully paid	15,00,000
Pre-incorporation profits	30,000
Profit and Loss Account	60,000
Trade payables	1,05,000

P Ltd. and Q Ltd. give the following information on 31st March, 2021:

	P Ltd.	Q Ltd.
	Rs.	Rs.
Equity shares of Rs. 10 each fully paid (before bonus issue)	45,00,000	15,00,000
Securities Premium	9,00,000	–
Pre-incorporation profits	–	30,000
General Reserve	60,00,000	19,05,000
Profit and Loss Account	15,75,000	4,20,000
Trade payables	5,55,000	2,10,000
Property, plant and equipment	79,20,000	23,10,000
Investment: 1,05,000 Equity shares in Q Ltd. at cost	12,00,000	–
Current Assets	44,10,000	17,55,000

Directors of Q Ltd. made bonus issue on 31.3.2021 in the ratio of one equity share of Rs. 10 each fully paid for every two equity shares held on that date. Bonus shares were issued out of post-acquisition profits by using General Reserve.

Calculate as on 31st March, 2021 (i) Cost of Control/Capital Reserve; (ii) Minority Interest;
(iii) Consolidated Profit and Loss Account in each of the following cases:

(a) Before issue of bonus shares.
(b) Immediately after issue of bonus shares.

(15 Marks)

(b) Under what circumstances, an LLP can be wound up by the Tribunal.

(5 Marks)

Question 3

(a) The position of Neha Ltd. on its liquidation is as under:
5,000, 10% Preference Shares of Rs. 100 each Rs. 60 paid up
2,000, Equity shares of Rs. 75 each, Rs. 50 paid up
Unsecured Creditors Rs. 99,000
Liquidation Expenses Rs. 1,000
Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to prepare Liquidator's Final Statement of Account if the total assets realized Rs. 3,80,400.

(10 Marks)

(b) Sun Ltd. grants 100 stock options to each of its 1200 employees on 01.04.2016 for Rs. 30, 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. 60 each. These options will vest at the end of the year 1 if the earning of Sun Ltd. is 16% or it will vest at the end of 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 is 10%. 6000 unvested options lapsed on 31.3.2017, 5000 unvested options lapsed on 31.03.2018 and finally 4000 unvested options lapsed on 31.03.2019.
The earnings of Sun Ltd. for the three financial years ended on 31st March, 2017, 2018 and 2019 are 15%, 10% and 6%, respectively.
1000 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.
You are requested to give the necessary journal entries for the above and prepare the statement showing compensation expenses to be recognized at the end of each year.

(10 Marks)

Question 4:

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

			Galaxy Ltd.	Glory Ltd.
			Rs.	**Rs.**
(I)	**Equity & Liabilities**			
	(1) Shareholders' fund			
	Share Capital			
	Equity shares of Rs. 10 each		8,40,000	4,55,000
	Reserves & Surplus	.		
	General Reserve		4,48,000	40,000
	Profit & Loss A/c		1,12,000	72,000
	(2) Non-current Liabilities			
	Secured Loan			
	6% Debentures		-	3,30,000
	(3) Current Liabilities			
	Trade Payables		4,20,000	1,83,000
		Total	18,20,000	10,80,000

(II)	**Assets**			
	(1) Non-current assets			
	Property, Plant & Equipment			
	Freehold property, at cost		5,88,000	3,36,000
	Plant & Machinery, at cost less depreciation		1,40,000	84,000
	Motor vehicles, at cost less depreciation		56,000	-
	(2) Current Assets			
	Inventories		3,36,000	4,38,000
	Trade Receivables		4,62,000	1,18,000
	Cash at Bank		2,38,000	1,04,000
		Total	18,20,000	10,80,000

Assets and Liabilities are to be taken at book value, with the following exceptions:

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures ofGlorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at Rs. 2,52,000.

(iii) Goodwill is to be valued at :
Galaxy Ltd. Rs. 4,48,000
Glory Ltd. Rs. 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected Rs. 1,10,000 from debtors and paid Rs. 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is Rs. 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

(20 Marks)

Question 5:

(a) A and B were carrying on business sharing profits and losses equally. The firm's Balance Sheet as at 31.12.20X1 was:

Liabilities		**Rs.**	**Assets**		**Rs.**
Sundry Creditors		60,000	Stock		60,000
Bank overdraft		35,000	Machinery		1,50,000
Capital A/cs:			Debtors		70,000
A	1,40,000		Joint Life Policy		9,000
B	1,30,000	2,70,000	Leasehold Premises		34,000
			Profit & Loss A/c		26,000
			Drawings Accounts:		
			A	10,000	
			B	6,000	16,000
		3,65,000			3,65,000

The business was carried on till 30.6.20X2. The partners withdrew in equal amounts half the amount of profits made during the period of six months after charging depreciation at 10% p.a. on machinery and after writing off 5% on leasehold premises. In the half-year, sundry creditors were reduced by Rs. 10,000 and bank overdraft by Rs. 15,000.

On 30.6.20X2, stock was valued at Rs. 75,000 and Debtors at Rs. 60,000; the Joint Life Policy had been surrendered for Rs. 9,000 before 30.6.20X2 and other items remained the same as at 31.12.20X1.

On 30.6.20X2, the firm sold the business to a Limited Company. The value of goodwill was fixed at Rs. 1,00,000 and the rest of the assets were valued on the basis of the Balance Sheet as at 30.6.20X2. The company paid the purchase consideration in Equity Shares of Rs. 10 each.

You are required to prepare: (a) Balance Sheet of the firm as on 30.6.20X2; (b) The Realization Account; (c) Partners' Capital Accounts showing the final settlement between them.

(12 Marks)

(b) Anmol Bank Ltd. has a balance of Rs. 40 crores in "Rebate on bills discounted" account as on 31st March, 2018. The Bank provides you the following information:

(i) During the financial year ending 31st March, 2019 Anmol Bank Ltd. discounted bills of exchange of Rs. 5,000 crores charging interest @ 14% and the average period of discount being 146 days.

(ii) Bills of exchange of Rs. 500 crores were due for realization from the acceptors/customers after 31st March, 2019. The average period of outstanding after 31st March, 2019 being 73 days. These bills of exchange of Rs. 500 crores were discounted charging interest @ 14% p.a.

You are requested to give the necessary Journal Entries in the books of Anmol Bank Ltd. for the above transactions.

(8 Marks)

Question 6: (Answer any four)

(a) (i) 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 1.4.2020 to 30.6.2020. On 1.7.2020, he left the service. Should the relative be identified as at the closing date i.e. on 31.3.2021 for the purposes of AS 18?

(ii) X Ltd. sold goods to its associate Company during the 1st quarter ending 30.6.2020. After that, the related party relationship ceased to exist. However, goods were supplied as were supplied to any other ordinary customer. Decide whether transactions of the entire year need disclosure as related party transaction.

(5 Marks)

(b) The Paid-up capital of S Limited amounted to Rs. 5,00,000 Equity Shares of Rs. 10 each. Due to continuous losses incurred by the company, the following scheme of reconstruction has been approved for S Limited on 1st April, 2020:

(i) In lieu of present holding the Equity Shareholders are to receive:
- (a) Fully Paid Equity Shares equal to 3/5th of their holding.
- (b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.
- (c) 10% Second Debentures of Rs. 40,000.

(ii) An issue of 8% Debentures First Debentures of Rs. 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-
- (a) Building from Rs. 2,00,000 to Rs. 1,50,000
- (b) Plant & Machinery from Rs. 1,50,000 to Rs. 1,30,000
- (c) Goodwill from Rs. 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction.

(5 Marks)

(c) Explain the concept of 'weighted average number of equity shares outstanding during the period'. Also compute, based on AS 20, the weighted average number of equity shares in the following case:

		No. of shares
1st April, 2020	Balance of equity shares	7,20,000
31st August, 2020	Equity shares issued for cash	2,40,000
1st February, 2021	Equity shares bought back	1,20,000
31st March, 2021	Balance of equity shares	8,40,000

(5 Marks)

(d) XYZ Ltd. is in the process of finalizing its account for the year ended 31st March, 2020. The company seeks your advice on the following:

The company's tax assessment for assessment year 2017-18 has been completed on 14th February, 2020 with a demand of Rs.5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of Rs.3.70 crore.

(5 Marks)

(e) While closing its books of accounts as at year end, a Non-Banking Finance Company has its advances classified as follows:

	Rs. (in lakhs)
Standard assets	18,400
Sub-standard assets	1,250
Secured Portion of doubtful debts:	
Upto one year	300
One year to three years	90
More than three years	30
Unsecured portions of doubtful debts	92
Loss assets	47

Calculate the amount of provision which must be made against the Advances as per -

(i) The Non-banking Financial Company - Non-systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016; and

(5 Marks)

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