(GI-7, VI-VDI-SI-3)

DATE: 11.04.2022 **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) SP hotels Limited enters into an agreement with Mr. A for running its hotel for a fixed return payable to the later every year. The contract involves the day-to-day management of the hotel, while all financial and operating policy decisions are taken by the Board of Directors of the company. Mr. A does not own any voting power in SP Hotels Limited. Would he be considered as a related party of SP Hotels Limited"?

(5 Marks)

(b) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are Rs. 7,00,000. The amount will be paid in 4 equal installments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is Rs. 70,000. The IRR of the investment is 10%. The present value of annuity factor of Rs. 1 due at the end of 4th year at 10% IRR is 3.169. The present value of Rs. 1 due at the end of 4th year at 10% rate of interest is 0.683.
State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(5 Marks)

(c) Akar Ltd. signed on 01/04/19, a construction contract for Rs. 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/20.

- Materials used Rs. 71,00,000
- Labour charges paid Rs. 36,00,000
- Hire charges of plant Rs. 10,00,000
- Other contract cost incurred Rs. 15,00,000
- Labour charges of Rs. 2,00,000 are still outstanding on 31.3.20.
- It is estimated that by spending further Rs. 33,50,000 the work can be completed in all respect.

You are required to compute profit/loss for the year to be taken to Profit & Loss Account and additional provision for foreseeable loss to be recognized as per AS 7.

(5 Marks)

(d) A company is showing an intangible asset at Rs. 88 lakhs as on 01.04.2021. This asset was acquired for Rs. 120 lakhs on 01.04.2017 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard.

(5 Marks)

Question 2:

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Liabilities	**Amount in Rs.**
Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
Reserves and Surplus:	
Profit and Loss Account	(14,60,000)
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Total	81,00,000
Assets:	
Non-Current Assets:	
Fixed Assets:	
(a) Tangible Assets:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets:	
Goodwill	10,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
Total	81,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.

(ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.

(iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.

(v) Directors also waived 60% of their loans and accepted equity shares for the balance.

(vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.

(vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.

(viii) Reconstruction expenses paid Rs. 15,000.

(ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.

(x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account arid Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

(20 Marks)

Question 3:

(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 4:

(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 5:

(a) From the following Trial Balance of All Rounder Ltd., on 1st January, 2021, prepare liquidator's final statement of account:

Particulars	Debit (Rs.)	Credit (Rs.)
9% Preference Share Capital (2,500 Preference Shares at Rs. 100 each, fully paid)		2,50,000
Equity Share Capital: 4,000 Equity Shares at		4,00,000

Rs. 100 each, fully paid.		
4,000 Equity Shares at Rs. 100 each, Rs. 50 paid up		2,00,000
Plant	6,00,000	
Stock-in-Trade	7,20,000	
Sundry Debtors	1,70,000	
Sundry Creditors		4,42,000
Bank Balance	2,40,000	
Preliminary Expenses	12,000	
6% Mortgage Loan		4,60,000
Outstanding Liabilities for Expenses	-	50,000
Profit and Loss A/c (Trading Loss for the previous accounting year)	60,000	-
Total	18,02,000	18,02,000

Following points should be kept in mind:

1. On 21st January, 2021, the Liquidator sold plant for Rs. 5,90,000 and stock-in-trade at 10% less than the Book Value. He realized 80% of Sundry Debtors, and incurred cost of collection of Rs. 3,700 (remaining Debtors are to be treated as bad).
2. The Loan Mortgage was discharged as on 31st January, 2021, along with interest for 6 months. Creditors were discharged subject to 5% discount. Outstanding Expenses paid at 20% less.
3. Preference Share Dividend is due for one year and paid with final payment.
4. Liquidation Expenses incurred are Rs. 3,600, and Liquidator's Remuneration is settled at 4% on disbursement to shareholders (preference and equity) excluding preference dividend, subject to minimum of Rs. 20,000. Liquidator's Remuneration to be rounded off to the multiple of Rs. 10.

(12 Marks)

(b) P Ltd. granted option for 8,000 equity shares of nominal value of Rs. 10 on 1st October, 20X0 at Rs. 80 when the market price was Rs. 170. The vesting period is 4½ years, 4,000 unvested options lapsed on 1st December, 20X2, 3,000 options were exercised on 30th September, 20X5 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

(8 Marks)

Question 6: (Answer any four)

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

(5 Marks)

(b) W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20. A, B, C and D hold preference share capital in the proportion of 30:40:20:10. If the paid up capital of the company is Rs. 40 Lakh and Preference share capital is Rs. 20 Lakh, find their voting rights in case of resolution of winding up of the company.

(5 Marks)

(c) (a) In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably only when certain conditions prescribed under AS 7 are satisfied. You are required to describe these conditions mentioned in the standard.

(b) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs. 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily. Is X correct in his proposal? Discuss.

(5 Marks)

(d) AB Limited is a company engaged in manufacturing industrial packaging equipment. As per the terms of an agreement entered with its debenture holders, the company is required to appropriate adequate portion of its profits to a specific reserve over the period of maturity of the debentures such that, at the redemption date, the reserve constitutes at least half the value of such debentures. As such appropriations are not available for distribution to the equity shareholders, AB Limited has excluded this from the numerator in the computation of Basic EPS. Is this treatment correct as per provisions of AS 20?

(5 Marks)

(e) 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)

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