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

DATE: 18.02.2022 **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) 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) 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)

(c) 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)

(d) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:
(i) On 15th January, 2017 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.
(ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.
(iii) On 1st November, 2016 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

(5 Marks)

Question 2:

(a) K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

		Particulars	Notes	Rs. K Ltd.	Rs. L Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	12,00,000	6,00,000
	B	Reserves and Surplus	2	3,71,375	1,97,175
2		**Non-current liabilities**			
	A	Long-term borrowings	3	2,00,000	2,00,000
3		**Current liabilities**			
	A	Trade Payables		1,00,000	2,10,000
		Total		18,71,375	12,07,175
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	11,30,000	8,20,000
	B	Intangible assets	5	80,000	-
2		**Current assets**			
	A	Inventories		2,25,000	1,40,000
	B	Trade receivables		2,75,000	1,75,000
	C	Cash and Cash equivalents	6	1,61,375	72,175
		Total		18,71,375	12,07,175

Notes to accounts

1	**Share Capital**		**K Ltd.**	**L Ltd.**
	Equity shares of Rs. 100 each		8,00,000	3,00,000
	7% Preference Shares of Rs. 100 each		4,00,000	3,00,000
			12,00,000	6,00,000
2	**Reserves and Surplus**			
	General reserve		-	1,00,000
	Profit and loss account		3,71,375	97,175
			3,71,375	1,97,175
3	**Long-term borrowings**			

	5% Debentures		2,00,000	-
	Secured loan		-	2,00,000
			2,00,000	2,00,000
4	**Property, plant and Equipment**			
	Land and Building		4,50,000	3,00,000
	Plant and machinery		6,20,000	5,00,000
	Furniture and fittings		60,000	20,000
			11,30,000	8,20,000
5	**Intangible assets**			
	Goodwill		80,000	-
			80,000	-
6	**Cash and Cash Equivalents**			
	Cash at Bank		1,20,000	55,000
	Cash in hand		41,375	17,175
			1,61,375	72,175

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

(2) Issue of 5 Preference shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at premium of Rs. 4 per share for each preference share held in both the Companies.

(3) Issue of 6 Equity shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at a premium of Rs. 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.

(B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.

(2) The trade receivables of K Ltd. include Rs. 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of Rs. 20 each, Rs. 18 paid up at premium of Rs. 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

(15 Marks)

(b) The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of Rs. 10 each, the following:

(a) New fully paid Rs. 10 Equity shares equal to $3/5^{th}$ of their holding.

(b) 10% Preference shares fully paid to the extent of $1/5^{th}$ of the above new equity shares.

(c) Rs. 40,000, 8% Debentures.

(ii) An issue of Rs. 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at Rs. 1,40,000 was completely written off.

(iv) Plant and machinery which stood at Rs. 2,00,000 was written down to Rs. 1,50,000.

(v) Freehold property which stood at Rs. 1,50,000 was written down by Rs. 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

(5 Marks)

Question 3:

(a) P and Q were partners sharing profits equally of P & Q Co. Their Balance Sheet as on March 31, 2021 was as follows:

Balance Sheet as on 31st March, 2021

Equity and Liabilities		**Rs.**	**Assets**	**Rs.**
Capitals:			Bank	30,000
P	1,00,000		Debtors	25,000
Q	50,000	1,50,000	Stock	35,000
Creditors		20,000	Furniture	40,000
Q's current account		10,000	Machinery	60,000
Reserves		15,000	P's current account	10,000
Bank overdraft		5,000		
		2,00,000		2,00,000

The firm was dissolved on the above date:

P took over 50% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 15%. Furniture and Machinery realized for Rs. 30,000 and Rs. 50,000 respectively; There was an unrecorded investment which was sold for Rs. 25,000; Debtors realized 90% only and Rs. 1,245 were recovered for bad debts written off last year; There was an outstanding bill for repairs which had to be paid for Rs. 2,000.

You are required to prepare Realization Account, Partners' capital accounts (including transfer of current account balances) and Bank Account in the books of the firm.

(10 Marks)

(b) On 1st April, 2020, XYZ Ltd., offered 150 shares to each of its 750 employees at Rs. 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in period on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs. 72 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 67 per share on the grant date. On 31st March, 2021, 600 employees accepted the offer and paid Rs. 60 per share purchased. Face value of each share is Rs. 10. You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

(5 Marks)

(c) Calculate 'Owned Fund' of an NBFC based on the following information:

Paid up share capital: Rs. 150 lakhs

Free reserves: Rs. 250 lakhs

Compulsory convertible preference shares (CCPS): Rs. 50 lakhs

Revaluation Reserve: Rs. 95 lakhs.

(5 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 Ltd acquired 1,600 ordinary shares of Rs.100 each of B Ltd on 1st July, 20X1. On 31st December, 20X1, the balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd.
as at 31st December, 20X1

Particulars	Note No.	A Ltd. (Rs.)	B Ltd. (Rs.)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	2,00,000
(b) Reserves and Surplus	2	2,97,200	1,82,000
(2) Current Liabilities			
(a) Trade Payables		47,100	17,400
(b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400
II. Assets			
(1) Non-current assets			
(d) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

		A Ltd. Rs.	B Ltd. Rs.
1.	**Share Capital**		
	5,000 shares of Rs. 100 each, fully paid up	5,00,000	-
	2,000 shares of Rs. 100 each, fully paid up	-	2,00,000
	Total	5,00,000	2,00,000
2.	**Reserves and Surplus**		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	2,97,200	1,82,000
3.	**Short term borrowings**		
	Bank overdraft	80,000	--
4.	**Property plant and equipment**		

	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	3,90,000	3,15,000
5.	**Non-current Investments**		
	Investment in B Ltd (at cost)	3,40,000	--
6.	**Cash & Cash equivalents**		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of Rs. 30,000 on 1st January, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at Rs. 1,50,000 on 1st January, 20X1 was considered as worth Rs. 1,80,000 on 1st July, 20X1; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).
Prepare consolidated Balance Sheet as at 31st December, 20X1.

(20 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) (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)

(c) Explain Garner v/s Murray rule applicable in the case of partnership firms. State the conditions when this rule is not applicable.

(5 Marks)

(d) 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.

(5 Marks)

(e) While closing its books of account on 31st March, a Non-Banking Finance Company has its advances classified as follows:

	Rs. in lakhs
Standard assets	16,800
Sub-standard assets	1,340
Secured portions of doubtful debts:	
– upto one year	320
– one year to three years	90
– more than three years	30
Unsecured portions of doubtful debts	97
Loss assets	48

Calculate the amount of provision, which must be made against the Advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

(5 Marks)

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