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

DATE: 11.09.2022 **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) 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 purpose Rs. 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)

(b) Surgical Ltd, is developing a new production process of surgical equipment. During the financial year ended 31st March 2020 the total expenditure incurred on the process was Rs. 67 lakhs. The production process met the criteria for recognition as an intangible asset on 1st January 2020. Expenditure incurred till this date was Rs. 35 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March 2021 Rs. 105 lakhs. As on 31st March 2021, the recoverable amount of technique embodied in the process is estimated to be Rs. 89 lakhs. This includes estimates of future cash outflows and inflows.

Under the provisions of AS 26, you are required to ascertain:

(i) The expenditure to be charged to Profit and Loss Account for the year ended 31st March 2020;

(ii) Carrying amount of the intangible asset as on 31st March 2020;

(iii) Expenditure to be charged to Profit and Loss Account for the year ended 31 st March 2021;

(iv) Carrying amount of the intangible asset as on 31st March 2021.

(5 Marks)

(c) Arzoo Ltd. is in the business of manufacture of passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the passenger car segment to the commercial vehicles segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it has planned that it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles plus transfer of employees in a phased manner. These plans have not approved from the Board of Directors and the new factory for manufacture of commercial vehicles has not yet started. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(5 Marks)

(d) Sarita Construction Co. obtained a contract for construction of a dam. The following details a re available in records of company for the year ended 31st March, 2021:

	Rs. In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts" you are required to compute:

(i) Profit/Loss for the year ended 31st March, 2021.
(ii) Contract work in progress as at end of financial year 2020-21.
(iii) Revenue to be recognized out of the total contract value.
(iv) Amount due from/to customers as at the year end.

(5 Marks)

Question 2:

(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 Rs. 100 each, fully paid.		4,00,000
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) A non-banking finance company provides the extract of its balance sheet as given below:

Equity and Liabilities	**Amount**	**Assets**	**Amount**
	Rs. in 000		**Rs. in 000**
Paid-up equity capital	400	Leased out assets	3,200
Free reserves	2,000	Investment:	
Loans	1,600	In shares of subsidiaries and group companies	400
Deposits	1,600	In debentures of subsidiaries and group Companies	400
		Cash and bank balances	800
		Deferred expenditure	800
	5,600		5,600

You are required to compute 'Net owned Fund' of this NBFC as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(4 Marks)

(c) State with reason whether the following cash credit accounts are NPA or not:

	Case-1	**Case-2**	**Case- 3**	**Case-4**
Sanctioned limit	50,00,000	60,00,000	55,00,000	45,00,000
Drawing power	44,00,000	56,00,000	50,00,000	42,00,000
Amount outstanding continuously 01-01-21 to 31-03-21	40,00,000	48,00,000	56,00,000	30,00,000
Total interest debited for the above period	3,20,000	3,84,000	4,48,000	2,40,000
Total credits for the above period	1,80,000	Nil	4,48,000	3,20,000

(4 Marks)

Question 3:

The following is the summarized Balance Sheet of M/s Red and Black as on 31st March, 2021:

Liabilities		**(Rs.)**	**Assets**	**(Rs.)**
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing Stock	60,000
Red's Loan		20,000	Sundry Debtors	40,000
General Reserve		20,000	Investment	40,000
Sundry Creditors		40,000	(6% Debentures in XYZ Ltd.) Cash	20,000
		2,60,000		2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2021. He is required to contribute cash towards goodwill and Rs. 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of Rs. 1000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under:

Year Ended	(Rs.)	Profit/Loss
31.3.2017	40,000	Profit
31.3.2018	20,000	Loss
31.3.2019	40,000	Profit
31.3.2020	50,000	Profit
31.3.2021	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2017 included an extraneous profit of Rs. 60,000 and the loss of the year ended 31st March, 2018 was on account of loss by strike to the extent of Rs. 40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2022 was Rs. 80,000 (Before charging depreciation)

(c) Each partner had drawn Rs. 2,000 per month as drawing during the year 2021-22.

(d) On 31st March, 2022 the following balances appeared in the books:

Building (Before Depreciation)	Rs. 1,20,000
Closing Stock	Rs. 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	Rs. 40,000

(e) Interest@ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debentures received during the year.

(g) Depreciation is to be provided @ 5% on closing balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company; i.e. RBW Private Limited. Certificate received on 1.4.2022.

They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2022). If necessary, partners have to subscribe to fresh capital or withdraw.

You are required to prepare: (1) Profit & Loss Account for the year ended 31st March, 2022 in the books of M/s Red and Black and (2) Balance Sheet as on 1st April, 2022 in the books of RBW Private Limited.

(20 Marks)

Question 4:

(a) On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

	H Ltd.	S Ltd.
	Rs.	**Rs.**
Shareholders' Fund		
Issued and subscribed		

Equity shares of Rs. 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	-
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	-
Bills Payable	60,000	14,800
Total	25,20,000	6,16,800
Assets		
Non-Current Assets	•	
(a) Property, Plant & Equipment	.	
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd.	3,84,000	-
(19,200 shares at Rs. 20 each)		
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
Total	25,20,000	6,16,800

The following information is also provided to you:

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at Rs. 60,000 and Rs. 36,000 respectively.

(b) Machinery (Book value Rs. 2,40,000) and Furniture (Book value Rs. 48,000) of S Ltd were revalued at Rs. 3,60,000 and Rs. 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%).

(c) On 31st March, 2020, Bills payable of Rs. 12,000 shown in S Ltd.'s Balance Sheet had been accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

(15 Marks)

(b) The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 of its fully paid equity shares of Rs. 10 each at Rs. 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013.

For this purpose, the company

(i) Sold its investments of Rs. 30,00,000 for Rs. 25,00,000.

(ii) Issued 20,000, 12% preference shares of Rs. 100 each at par, the entire amount being payable with application.

(iii) Used Rs. 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy- back of shares in the books of Umang Ltd.

(5 Marks)

Question 5:

(a) 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 i t 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)

(b) Vasu 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 assets and risk weighted assets ratio.

Particulars	Rs. in crores
Equity Share Capital	600.00
Statutory Reserve	250.00
Capital Reserve (of which Rs. 26 crores were due to revaluation of assets and the balance due to sale of capital assets)	87.00
Assets:	
Cash Balance with RBI	20.00
Balance with other banks	28.00
Other investments	38.00
Loans and advances :	
(i) Guaranteed by the Govt.	18.50
(ii) Others	6,625.00
Premises, Furniture and fixtures	108.00
Off-Balance Sheet Items	
(i) Guarantee and other obligations	600.00
(ii) Acceptances, endorsements and letter of credit	4,200.00

(10 Marks)

Question 6: (Answer any four)

(a) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date:

(i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.

(ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.

(5 Marks)

(b) 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 of Rs. 2,25,000. Economic life of the machine is 5 years and output from the machine is estimated as 60,000 units, 75,000 units, 90,000 units, 1,20,000 units and 1,05,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. You are required to compute the following as per AS-19.

(i) Annual Lease Rent
(ii) Lease Rent income to be recognized in each operating year and
(iii) Depreciation for 3 years lease

(5 Marks)

(c) P, Q, R and S hold equity share capital in the proportion of 10:40:20:30. K, L, M and N hold preference share capital in the proportion of 20:10:40:30. If the paid up equity share capital of the company is Rs. 60 lakhs and Preference Share Capital is Rs. 30 lakhs, find their voting rights in case of resolution of winding up of the company.

(5 Marks)

(d) Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.20X1:

Liabilities	**Amount**	**Assets**	**Amount**
	Rs.		**Rs.**
Authorised and issued capital:		Building at cost	
12,000, 7% Preference shares of	6,00,000	less depreciation	4,00,000
Rs. 50 each Note: Preference dividend		Plant at cost less	2,68,000
is in arrear for five years)		depreciation	
15,000 Equity shares of Rs. 50 each	7,50,000	Trademarks and	
	13,50,000	goodwill at cost	3,18,000
Loan	5,73,000	Inventory	4,00,000
Trade payables	2,07,000	Trade receivables	3,28,000
Other liabilities	35,000	Profit and loss A/c	4,51,000
	21,65,000		21,65,000

The Company is now earning profits short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

(a) The equity shareholders have agreed that their Rs. 50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.
(b) The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.
(c) Lenders to the company for Rs. 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.
(d) The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.
(e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.
(f) The equity share capital cancelled is to be applied:
    i. to write off the debit balance in the profit and loss A/c; and
    ii. to write off Rs. 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme. The nominal capital as reduced is to be increased to Rs. 6,50,000 for preference share capital and Rs. 7,50,000 for equity share capital.

(5 Marks)

(e) The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	Alex Ltd. (Rs.)	Beta Ltd. (Rs.)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	37,80,000	15,96,000
Liabilities	**Alex Ltd. (Rs.)**	**Beta Ltd. (Rs.)**
Share Capital:		
Equity Shares of Rs. 10 each	28,00,000	8,40,000
8% Preference Shares of Rs. 100 each	2,80,000	–
10% Preference Shares of Rs. 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000

Beta Ltd.is absorbed by Alex Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

(b) Goodwill of Beta Ltd. is valued at Rs. 1,40,000, Buildings are valued at Rs. 4,20,000 and the Machinery at Rs. 4,48,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to calculate purchase consideration.

(5 Marks)

__**__