(GI-8, FMT)

DATE: 01.03.2023 **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 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)

(b) 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)

(c) 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)

(d) Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2020-21. The development of the process began on 1st September, 2020 and upto 31st March, 2021, a sum of Rs. 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria. From 1st April, 2021, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs. 1 for 5 years @ 10% is 3.7908.
Decide the treatment of Research and Development Cost of the project as per AS 26.

(5 Marks)

Question 2:

(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 31^{st} 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 3:

The following is the Balance Sheet of Messers A and B as on 31st March 20X5:

Liabilities		Rs.	Assets	Rs.
A's Capital	40,000		Buildings	50,000
B's Capital	50,000	90,000	Stock	30,000
A's Loan		10,000	Debtors	20,000
General Reserve		10,000	Investment	
Liabilities		20,000	6% Debentures in X Ltd.	20,000
			Cash	10,000
		1,30,000		1,30,000

It was agreed that Mr. C is to be admitted for a fifth share in the future profits from 1st April 20X5. He is required to contribute cash towards goodwill and Rs. 10,000 towards capital.

The following further information is furnished:

(i) The partners A and B shared the profits in the ratio 3:2.

(ii) Mr. A was receiving a salary of Rs. 500 p.m. from the very inception of the firm in 20X1 in addition to share of profit.

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

(iv) (a) 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 the profits are as under:

Year Ended	Rs.
Profit	20,000
Loss	10,000
Profit	20,000
Profit	25,000
Profit	30,000

The above profits and losses are after charging the salary of Mr. A. The profit of the year ended 31st March 20X1 included an extraneous profit of Rs. 30,000 and the loss of the year ended 31st March 20X2 was on account of loss by strike to the extent of Rs. 20,000.

(b) It was agreed that the value of the goodwill of the firm should appear in the books of the firm.

(v) The trading profit for the year ended 31st March, 20X6 was Rs. 40,000 before depreciation.

(vi) The partners had drawn each Rs. 1,000 p.m. as drawings.

(vii) The value of the other assets and liabilities as on 31st March, 20X6 were as under:

	Rs.
Building (before depreciation)	60,000
Stock	40,000
Debtors	Nil
Investment	20,000
Liabilities	Nil

(viii) Provide depreciation at 5% on buildings on the closing balance and interest at 6% on A's loan.

(ix) They applied for conversion of the firm into a Private Limited Company i.e. ABC Pvt. Ltd. Certificate received on 1-4-20X6. They decided to convert Capital A/cs of the partners into share capital in the ratio of 3: 1:1 on the basis of total Capital as on 31-3-20X6. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Statement of Profit and Loss for the year ended 31st March, 20X6 and the Balance Sheet of the company.

(20 Marks)

Question 4:

(a) 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.

(15 Marks)

(b) 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)

Question 5:

(a) X Co. Ltd. went into voluntary liquidation on 1st April, 2017. The following balances are extracted from its books on that date:

	Rs.		**Rs.**
Capital		Machinery	90,000
24,000 Equity Shares of Rs. 10 each	2,40,000	Leasehold properties	1,20,000
Debentures (Secured by		Stock	3,000
Floating charge)	1,50,000	Debtors	1,50,000
Bank overdraft	54,000	Investments	18,000
Creditors	60,000	Cash in hand	3,000
		Profit and loss account	1,20,000
	5,04,000		5,04,000

The following assets are valued as under:

	Rs.
Machinery	1,80,000
Leasehold properties	2,18,000
Investments	12,000

Stock	6,000
Debtors	1,40,000

The bank overdraft is secured by deposit of title deeds of leasehold properties. There were preferential creditors amounting Rs. 3,000 which were not included in creditors Rs. 60,000.
Prepare a statement of affairs to be submitted to the meeting of members/creditors.

(8 Marks)

(b) 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.

(12 Marks)

Question 6: (Answer any four)

(a) 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)

(b) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2019 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crore with an escalation clause. You are given the following information for the year ended 31.03.2019:

Cost incurred upto 31.03.2019	Rs. 4 crore
Further cost estimated to complete the contract	Rs. 6 crore

Escalation in cost was by 5%. Hence, the contract price is also increased by 5%. You are required to ascertain the stage of completion and compute the amount of revenue and profit to be recognized for the year as per AS 7.

(5 Marks)

(c) 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)

(d) How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.

(5 Marks)

(e) 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)

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