**(GI-8, FMT)**

**DATE: 07.04.2023 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)** GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol and Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. Rs. 102 Lakhs, Rs. 150 Lakhs, Rs. 130 Lakhs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.
Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

**(5 Marks)**

**(b)** 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)**

**(c)** Desire Ltd. acquired a patent at a cost of Rs. 1,00,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset on SLM. After two years it was found that the product life -cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be Rs. 45,00,000, Rs. 42,00,000, Rs. 40,00,000, Rs. 38,00,000 and Rs. 35,00,000. Patent is renewable and company changed amortization method from 3rd year (i.e. from SLM to ratio of expected new cash flows).
You are required to compute the amortization cost of the patent for each of the years (1st year to 7th year).

**(5 Marks)**

**(d)** 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 instalments 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)**

**Question 2:**

**(a)** Sun and Neptune (both companies) had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of Rs. 4,00,000 divided into 80,000 equity shares of Rs. 5 each. On 31st March, 2021 Sun and Neptune provide the following information:

| | **Sun (Rs.)** | **Neptune (Rs.)** |
|---|---|---|
| Fixed Assets | 6,35,000 | 3,65,000 |
| Current Assets | 3,27,000 | 1,67,750 |
| | 9,62,000 | 5,32,750 |
| Less: Current Liabilities | (5,97,000) | (1,80,250) |
| Representing Capital | 3,65,000 | 3,52,500 |

**Additional Information:**

(a) Revalued figures of Fixed and Current assets were as follows:

| | **Sun (Rs.)** | **Neptune (Rs.)** |
|---|---|---|
| Fixed Assets | 7,10,000 | 3,90,000 |
| Current Assets | 2,99,500 | 1,57,750 |

(b) The debtors and creditors include Rs. 43,350 owed by Sun to Neptune.
The purchase consideration is satisfied by issue of the following shares and debentures.

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

| | **Sun (Rs.)** | **Neptune (Rs.)** |
|---|---|---|
| 2019 Profit | 4,49,576 | 2,73,900 |
| 2020 (Loss)/Profit | (2,500) | 3,42,100 |
| 2021 Profit | 3,77,924 | 3,59,000 |

(ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31 st March, 2021 after revaluation of assets.

You are required to :

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

**(16 Marks)**

**(b)** Statement of interest on advances in respect of Performing assets and Non-Performing Assets of Omega Bank is as follows:-

**(in lakhs)**

| | Performing Assets | | Non-Performing Assets | |
|---|---|---|---|---|
| | **Interest earned** | **Interest received** | **Interest earned** | **Interest received** |
| Cash credits and overdrafts | 1800 | 1060 | 450 | 70 |
| Term Loan | 480 | 320 | 300 | 40 |
| Bills purchased and discounted | 700 | 550 | 350 | 36 |

Find out the income to be recognized for the year ended 31st March, 2020.

**(4 Marks)**

**Question 3:**

**(a)** Consider the following summarized balance sheets of subsidiary Neel Ltd.:

| | **2015** | **2016** | | **2015** | **2016** |
|---|---|---|---|---|---|
| | **Rs.** | **Rs.** | | **Rs.** | **Rs.** |
| Share-Capital | | | Fixed Assets | | |
| Issued & subscribed 2,500 equity shares of Rs. 100 each | 2,50,000 | 2,50,000 | Cost | 1,60,000 | 1,60,000 |
| | | | Less: Accumulated depreciation | (24,000) | (48,000) |
| Reserves & Surplus | | | | 1,36,000 | 1,12,000 |
| Revenue reserves | 1,43,000 | 3,57,000 | Investments at cost | — | 2,00,000 |
| Current Liabilities & Provisions: | | | Current Assets: | | |
| Trade Payables | 2,45,000 | 2,47,000 | Inventory | 2,98,500 | 3,71,000 |
| Bank overdraft | — | 85,000 | Trade Receivables | 2,97,000 | 4,45,500 |
| Provision for taxation | 1,55,000 | 2,15,000 | Prepaid Expenses | 36,000 | 24,000 |
| | | | Cash at Bank | 25,500 | 1,500 |
| | 7,93,000 | 11,54,000 | | 7,93,000 | 11,54,000 |

Also consider the following information:

(i) Neel Ltd. is a subsidiary of Sky Ltd. Both the companies follow calendar year as the accounting year.

(ii) Sky Ltd. values inventory on LIFO basis while Neel Ltd. used FIFO basis. To bring Neel Ltd.'s values in line with those of Sky Ltd. its value of inventory is required to be reduced by Rs. 6,000 at the end of 2015 and Rs. 17,000 at the end of 2016.

(iii) Neel Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

(iv) Prepaid expenses in Neel Ltd. include advertising expenditure carried forward of Rs. 30,000 in 2015 and Rs. 15,000 in 2016, being part of initial advertising expenditure of Rs. 45,000 in 2015 which is being written off over three years. Similar amount of advertising expenditure of Sky Ltd. has been fully written off in 2015.

You are required to restate the balance sheet of Neel Ltd. as on 31st December, 2016 after considering the above information, for the purpose of consolidation. Make the necessary restatement which is necessary to make the accounting policies adopted by Sky Ltd. and Neel Ltd. uniform.

**(12 Marks)**

**(b)** Dee Limited (a non-listed company) furnishes the following Balance Sheet as at 31st March, 20X1:

**(in thousand Rs.)**

| | | **Particulars** | **Notes** | **Rs.** |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | A | Share capital | 1 | 2,700 |
| | B | Reserves and Surplus | 2 | 9,700 |

| | | | | |
|---|---|---|---|---|
| **2** | | **Current liabilities** | | |
| | A | Trade Payables | | 1,400 |
| | | Total | | 13,800 |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | A | Property, plant and Equipment | | 9,300 |
| | B | Non-Current Investments | | 3,000 |
| **2** | | **Current assets** | | |
| | A | Inventories | | 500 |
| | B | Trade receivables | | 200 |
| | C | Cash and Cash equivalents | | 800 |
| | | Total | | 13,800 |

**Notes to accounts**

| No. | Particulars | | Rs. |
|---|---|---|---|
| **1** | **Share Capital** | | |
| | Authorized, issued and subscribed capital: | | |
| | 2,50,000 Equity shares of Rs. 10 each fully paid up | | 2,500 |
| | 2,000, 10% Preference shares of Rs. 100 each | | 200 |
| | (Issued two months back for the purpose of buy-back) | | -- |
| | Total | | 2,700 |
| **2** | **Reserves and Surplus** | | |
| | Capital reserve | | 1,000 |
| | Revenue reserve | | 3,000 |
| | Securities premium | | 2,200 |
| | Profit and loss account | | 3,500 |
| | Total | | 9,700 |

The company passed a resolution to buy-back 20% of its equity capital @ Rs. 50 per share. For this purpose, it sold all of its investment for Rs. 22,00,000.
You are required to pass necessary journal entries and prepare the Balance Sheet.

**(8 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)** The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

| | | | | **Rs.** |
|---|---|---|---|---|
| **A.** | **Equity & Liabilities** | | | |
| | **1.** | **Shareholders' Fund:** | | |
| | | **(a)** | **Share Capital:** | |
| | | | 9,000 7% Preference Shares of Rs. 100 each fully paid | 9,00,000 |
| | | | 10,000 Equity Shares of Rs. 100 each fully paid | 10,00,000 |
| | | **(b)** | **Reserve & Surplus:** | |
| | | | Profit & Loss Account | (2,00,000) |
| | **2.** | **Non-current liabilities:** | | |
| | | | "A" 6% Debentures (Secured on Bombay Works) | 3,00,000 |
| | | | "B" 6% Debentures (Secured on Chennai Works) | 3,50,000 |
| | **3.** | **Current Liabilities and Provisions:** | | |
| | | (a) | Workmen's Compensation Fund: | |
| | | | Bombay Works | 10,000 |
| | | | Chennai Works | 5,000 |
| | | (b) | Trade Payables | 1,25,000 |
| | | | Total | 24,90,000 |
| **B.** | **Assets:** | | | |
| | **Non- current Assets:** | | | |
| | **1.** | **PPE**: | | |
| | | | Bombay Works | 9,50,000 |
| | | | Chennai Works | 7,75,000 |
| | **2.** | **Investment:** | | |

| | | | | |
|---|---|---|---|---|
| | | | Investments for Workman's Compensation Fund | 15,000 |
| | **3.** | **Current Assets:** | | |
| | | (a) | Inventories | 4,50,000 |
| | | (b) | Trade Receivables | 2,50,000 |
| | | (c) | Cash at Bank | 50,000 |
| | | | | 24,90,000 |

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to Rs. 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to Rs. 10.

(iii) The directors to refund Rs. 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of Rs. 26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at Rs. 4,25,000 and to accept an allotment of 1,500 equity shares of Rs. 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs. 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of Rs. 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Inventory was to be written off by Rs. 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs. 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

**(15 Marks)**

**(b)** Alpha Ltd. is under the process of liquidation. Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for Rs. 37,50,000 against which payment was made as follows:

Liquidation Expenses Rs. 37,500
Secured Creditors Rs. 15,00,000
Preferential Creditors Rs. 1,12,500

The amount due to Unsecured Creditors was Rs. 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator.
Calculation shall be made to the nearest multiple of a rupee.

**(5 Marks)**

**Question 6: (Answer any four from the following)-**

**(a)** 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)**

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

**(5 Marks)**

**(c)** Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

| **Liabilities** | **Amount** | **Assets** | **Amount** |
|---|---|---|---|
| | **Rs. in 000** | | **Rs. in 000** |
| Paid-up equity capital | 100 | Leased out assets | 800 |
| Free reserves | 500 | Investment: | |
| Loans | 400 | In shares of subsidiaries | |
| Deposits | 400 | and group companies | 100 |
| | | In debentures of | 100 |
| | | subsidiaries and group | |
| | | Companies | |
| | | Cash and bank balances | 200 |
| | | Deferred expenditure | 200 |
| | 1,400 | | 1,400 |

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

**(5 Marks)**

**(d)** ABC Ltd. grants 1,000 employees stock options on 1.4.20X0 at Rs. 40, when the market price is Rs. 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.20X2. 600 options are exercised on 30.6.20X3. 100 vested options lapse at the end of the exercise period.

Pass Journal Entries giving suitable narrations.

**(5 Marks)**

**(e)** Rain Ltd. went into liquidation on 31st March, 20X1. Following are the details regarding share capital of the company:-

I. 30,000 Equity shares of Rs. 100 each, Rs. 80 paid up.

II. 80,000 Equity shares of Rs. 50 each, Rs. 25 paid up.

III. 4,00,000 Equity shares of Rs. 10 each, fully paid up.

Surplus available with the liquidator after payment of all the liabilities Rs. 24,00,000. Distribute this surplus money among different categories of shareholders.

**(5 Marks)**

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