**(GI-2, GI-6, GI-7, VI-1, VDI-1, DRIVE & FMT)**

**DATE: 18.08.2023 MAXIMUM MARKS: 100 TIMING: 3¼ Hours**

# 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)** 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)**

**(b)** A construction contractor has a fixed price contract for Rs. 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

| | **(Amount Rs. in lacs)** | | |
|---|---|---|---|
| | Year 1 | Year 2 | Year 3 |
| Initial Amount for revenue agreed in contract | 9,000 | 9,000 | 9,000 |
| Variation in Revenue (+) | - | 200 | 200 |
| Contracts costs incurred up to the reporting date | 2,093 | 6,168* | 8,100** |
| Estimated profit for whole contract | 950 | 1,000 | 1,000 |

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2.

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

**(5 Marks)**

**(c)** 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)**

**(d)** The following transactions were reported by PQR Ltd. during the year 2020-2021:

| | | |
|---|---|---|
| i. | Tax Rate | 30%<br>(Rs. in lakh) |
| ii. | Items disallowed in 2019-2020 and allowed for tax purposes in 2020-2021. | 20.00 |
| iii. | Interest to Financial Institutions accounted in the books on accrual basis, but actual payment was made before the due date of filing return and allowed for tax purpose also. | 20.00 |
| iv. | Donations to Private Trust made in 2020-2021 (not allowed under Income Tax Laws). | 10.00 |

You are required to show impact of the above items in terms of Deferred Tax Assets/Deferred Tax Liability for the year ended 31.03.2021.

**(5 Marks)**

**Question 2:**

**(a)** Recover Ltd. decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 2020 is as follows-

| | | **Particulars** | **Notes** | **Rs.** |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders' funds** | | |
| | A | Share capital | 1 | 3,50,000 |
| | B | Reserves and surplus | 2 | (70,000) |
| **2** | | **Non-current liabilities** | | |
| | A | Long-term borrowings | 3 | 55,000 |
| **3** | | **Current liabilities** | | |
| | A | Trade Payables | | 80,000 |
| | B | Short term Borrowings – Bank overdraft | | 90,000 |
| | | | | 5,05,000 |
| | | **Assets** | | |
| **1** | | **Non-current assets** | | |
| | A | Property, Plant Equipment | 4 | 3,35,000 |
| | B | Intangible assets | 5 | 50,000 |
| | C | Non-current investments | 6 | 40,000 |
| **2** | | **Current assets** | | |
| | A | Inventories | | 30,000 |
| | B | Trade receivables | | 50,000 |
| | | | | 5,05,000 |

**Notes to accounts:**

| | | |
|---|---|---|
| **1** | **Share Capital** | Rs. |
| | Equity share capital: | |
| | 20,000 Equity Shares of Rs. 10 each | 2,00,000 |
| | Preference share capital: | |
| | 15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years) | 1,50,000 |
| | | 3,50,000 |
| **2** | **Reserves and surplus** | |
| | Securities premium | 10,000 |
| | Profit and loss account (debit balance) | (80,000) |
| | | (70,000) |
| **3** | **Long-term borrowings** | |
| | Secured | |
| | 9% Debentures (secured on the freehold property | 50,000 |
| | Accrued interest on 9% debentures | 5,000 |
| | | 55,000 |
| **4** | **Property, Plant and Equipment** | |
| | Freehold property | 1,20,000 |
| | Leasehold property | 85,000 |
| | Plant and machinery | 1,30,000 |
| | | 3,35,000 |
| **5** | **Intangible assets** | |
| | Goodwill | 50,000 |
| | | 50,000 |
| **6** | **Non-current investments** | |
| | Non-Trade investments at cost | 40,000 |
| | | 40,000 |

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

i. The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.
ii. One new equity share of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.
iii. The balance on Securities Premium Account was utilized and was transferred to capital reduction account.
iv. The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the balance to the company after deducting the amount due to them.
v. Plant and Machinery was written down to Rs. 1,00,000.
vi. Non-trade Investments were sold for Rs. 32,000.
vii. Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.
viii. A contingent liability of which no provision had been made was settled at Rs. 7,000 and of this amount, Rs. 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme.

**(10 Marks)**

**(b)** The following figures are extracted from the books of KLM Bank Ltd. as on 31-03-20X2:

| | Rs. |
|---|---|
| Interest and discount received | 38,00,160 |
| Interest paid on deposits | 22,95,360 |
| Issued and subscribed capital | 10,00,000 |
| Salaries and allowances | 2,50,000 |
| Directors Fees and allowances | 35,000 |
| Rent and taxes paid | 1,00,000 |
| Postage and telegrams | 65,340 |
| Statutory reserve fund | 8,00,000 |
| Commission, exchange and brokerage | 1,90,000 |
| Rent received | 72,000 |
| Profit on sale of investment | 2,25,800 |
| Depreciation on assets | 40,000 |
| Statutory expenses | 38,000 |
| Preliminary expenses | 30,000 |
| Auditor's fee | 12,000 |

The following further information is given:

(1) A customer to whom a sum of Rs. 10 lakhs was advanced has become insolvent and it is expected only 55% can be recovered from his estate.

(2) There was also other debts for which a provisions of Rs. 2,00,000 was found necessary.

(3) Rebate on bill discounted on 31-03-20X1 was Rs. 15,000 and on 31-03-20X2 was Rs. 20,000.

(4) Income tax of Rs. 2,00,000 is to be provided.
The directors desire to declare 5% dividend.

Prepare the Profit and Loss account of KLM Bank Ltd. for the year ended 31-03-20X2 and also show, how the Profit and Loss account will appear in the Balance Sheet if the Profit and Loss account opening balance was NIL as on 31-03-20X1.

**(10 Marks)**

**Question 3:**

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 4:**

**(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, current account and Bank Account in the books of the firm.

**(10 Marks)**

**(b)** 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)**

**Question 5:**

**(a)** The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Equity Shares of Rs. 10 fully paid | 30,00,000 | Goodwill | 5,00,000 |
| Export Profit Reserves | 8,50,000 | Tangible Fixed Assets | 30,00,000 |
| General Reserves | 50,000 | Stock | 10,40,000 |
| Profit and loss Account | 5,50,000 | Debtors | 1,80,000 |
| 9% Debentures | 5,00,000 | Cash & Bank | 2,80,000 |
| Trade Creditors | 1,00,000 | Preliminary Expenses | 50,000 |
| | 50,50,000 | | 50,50,000 |

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by Anu Ltd. as agreed:
  (i) 4,50,000 equity Shares of Rs. 10 each issued by Anu Ltd. by valuing its share @ Rs. 15 per share.
  (ii) Cash payment equivalent to Rs. 2.50 for every share in Srishti Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in Anu Ltd. at 96% as is sufficient to discharge 9% Debentures in Srishti Ltd. at a premium of 20%.

(c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at Rs. 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.

(d) The actual cost of liquidation of Srishti Ltd. was Rs. 75,000. Liquidation cost of Srishti Ltd. is to be reimbursed by Anu Ltd. to the extent of Rs. 50,000.

(e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

(i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and

(ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business.

**(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 6: (Answer any four)**

**(a)** Bright Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 200 lakhs of which installments are overdue on 200 accounts for last two months (amount overdue Rs. 40 lakhs), on 24 accounts for three months (amount overdue Rs. 24 Iakhs), on 10 accounts for more than 30 months (amount overdue Rs. 20 lakhs) and on 4 accounts for more than three years (amount overdue Rs. 20 lakhs-already identified as sub-standard assets) and one account of Rs. 10 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount Rs. 6 lakhs) for more than twelve months and other are identified as sub-standard asset for a period of less than twelve months.
Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

**(5 Marks)**

**(b)** State whether the following items are examples of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity :
(i) Actual bad debts turning out to be more than provisions.
(ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.
(iii) Government grant receivable as compensation for expenses incurred in previous accounting period.
(iv) Treating operating lease as finance lease.
(v) Capitalisation of borrowing cost on working capital.
(vi) Legislative changes having long term retrospective application.
(vii) Change in the method of depreciation from straight line to WDV.
(viii) Government grant becoming refundable.
(ix) Applying 10% depreciation instead of 15% on furniture.
(x) Change in useful life of fixed assets.

**(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)** 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)**

**(e)** 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.

**(5 Marks)**

__**__