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

DATE: 03.10.2023 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) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments:

(Rs. in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

(5 Marks)

(b) Classify the following into either operating or finance lease:

(i) If Present value (PV) of Minimum lease payment (MLP) = "X" ; Fair value of the asset is "Y" and X=Y.

(ii) Economic life of the asset is 7 years, lease term is 6.5 years, but asset is not acquired at the end of the lease term;

(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee .

(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) Saras Ltd. closes its books as on 31st March 20X2. They have accrued Rs. 5,00,000 towards GST Liability for the month of March 20X2 by debiting their Profit and loss statement which is expected to be paid off by 21st April 20X2 . As per the provisions of Section 43B of the Income Tax Act, 1961 – Any expenditure of the nature mentioned in section 43B (e.g. taxes, duty, cess, fees, etc.) accrued in the statement of profit and loss on mercantile basis will be allowed for tax purposes in subsequent years on payment basis only. Assuming a Tax rate of 30% determine the Deferred Tax Asset/Liability as at 31st March 20X2.

(5 Marks)

Question 2:

(a) A partnership firm was dissolved on 30th June, 2020. Its Balance Sheet on the date of dissolution was as follows:

Equity & Liabilities	Rs.	Rs.	Assets	Rs.
Capitals:			Cash	10,800
A	76,000		Sundry Assets	1,89,200
B	48,000			
C	36,000	1,60,000		
Loan A/c – B		10,000		
Sundry Creditors		30,000		
		2,00,000		2,00,000

The assets were realized in instalments and the payments were made on the proportionate capital basis. Creditors were paid Rs. 29,000 in full settlement of their account. Expenses of realization were estimated to be Rs. 5,400 but actual amount spent was Rs. 4,000. This amount was paid on 15th September. Draw up a statement showing distribution of cash, which was realized as follows:

	Rs.
On 5th July, 2020	25,200
On 30th August, 2020	60,000
On 15th September, 2020	80,000

The partners shared profits and losses in the ratio of 2 : 2 : 1. Prepare a statement showing distribution of cash amongst the partners by 'Highest Relative Capital' method.

(12 Marks)

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

(4 Marks)

(c) ABC Limited went into voluntary liquidation. Details are as follows :
1,000 - 10% Preference Shares of Rs. 100 each fully paid up
Class A - 1,200 Equity shares of Rs. 100 each (Rs. 80 paid up)
Class B - 800 Equity shares of Rs. 100 each (Rs. 65 paid up)
Assets realized Rs. 3,50,000 and liquidation expenses is Rs. 8,000. Company has secured Bank Loan of Rs. 60,000 and salary of 3 clerks for 3 months at a rate of Rs. 500 per month are outstanding. Creditors are Rs. 70,000.
Calculate amount receivable from / or returnable to equity shareholders.

(4 Marks)

Question 3:

(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 4:

(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 5:

(a) Shine Ltd. provides the following information as on 31st March, 2021:

(Rs.in '000)

	Amount
Equity Shares of Rs. 10 each	35,000
8%, Cumulative Preference Shares of Rs. 100 each	17,500
6% Debentures of Rs. 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Property, Plant and Equipment	43,750
Investments (Market value Rs. 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account (Dr. balance)	2,100

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2021.

(i) All the existing equity shares are reduced to Rs. 4 each.
(ii) All preference shares are reduced to Rs. 60 each.
(iii) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange them for fresh debentures of Rs. 80 each. Each old debenture is exchanged for one new debenture.
(iv) Investments are to be brought to their market value.
(v) The Taxation Liability is settled at Rs. 5,25,000 out of current Assets.
(vi) The balance of Profit and Loss Account to be written off and balance of Current Assets left after settlement of taxation liability are revalued at Rs. 1,57,50,000.
(vii) One of the creditors of the Company for Rs. 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs. 4 each in full and final settlement of his claim.
(viii) Property, plant and equipment to be written down to 80%.

You are required to give journal entries for the above transactions and prepare capital reduction account.

(10 Marks)

(b) The following information are available in the books of Bank.
Rebate on Bills discounted (01.04.2022) 65,500, Discount received during the year Rs. 1,25,000.
An analysis of the bills discounted is as follows:

	Amount	**Due Date**	**Rate of Discount (in %)**
(i)	36,000	June 7,2023	12
(ii)	34,200	June 14,2023	12
(iii)	14,000	July 19,2023	10
(iv)	14,000	August 10,2023	15

(v)	12,500	September 5,2023	13
(vi)	11,000	October 7,2023	14

You are required to:

(i) Calculate the rebate on Bills Discounted as on 31-3-2023 and show necessary journal entries.

(ii) Compute the amount of discount credited to Profit and Loss Account.

(5 Marks)

(c) Proud Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's banker to whom the company owes Rs. 10 crores. The company owes the following amounts to others:

(i) Dues to workers-Rs. 2,50,00,000

(ii) Taxes payable to Government-Rs. 60,00,000

(iii) Unsecured Creditors-Rs. 1,20,00,000

You are required to compute with the reference to the provisions of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only Rs. 8,00,00,000.

(5 Marks)

Question 6: (Answer any four)

(a) The following data is provided for M/s. Raj Construction Co.

(i) Contract Price - Rs. 85 lakhs

(ii) Materials issued - Rs. 21 Lakhs out of which Materials costing Rs. 4 Lakhs is still lying unused.at the end of the period.

(iii) Labour Expenses for workers engaged at site - Rs. 16 Lakhs (out of which Rs. 1 Lakh is still unpaid)

(iv) Specific Contract Costs = Rs. 5 Lakhs

(v) Sub-Contract Costs for work executed - Rs. 7 Lakhs, Advances paid to Suh-Contractors - Rs. 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract - Rs. 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

(5 Marks)

(b) The following information is provided to you:

Net profit for the year 2022:	Rs. 72,00,000
Weighted average number of equity shares outstanding during the year 2022:	30,00,000 shares
Average Fair value of one equity share during the year 2022:	Rs. 25.00
Weighted average number of shares under option during the year 2022:	6,00,000 shares
Exercise price for shares under option during the year 2022:	Rs. 20.00

You are required to compute Basic and Diluted Earnings Per Share as per AS 20.

(5 Marks)

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

(i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.

(ii) Instalment Sales.

(iii) Trade discounts and volume rebates.

(iv) Insurance agency commission for rendering services.

(v) Advertising commission.

(5 Marks)

(d) P Ltd. granted option for 8,000 equity shares of nominal value of Rs. 10 on 1st October, 20X0 at Rs. 80 when the market price was Rs. 170. The vesting period is 4½ years, 4,000 unvested options lapsed on 1st December, 20X2, 3,000 options were exercised on 30th September, 20X5 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

(5 Marks)

(e) In a limited company, Equity Share Capital is held by X, Y and Z in the proportion of 30:30:40. Also A, B and C hold preference share capital in the proportion of 50:30:20. The company has not paid the dividend to holders of preference share capital for more than 3 years. Given that the paid-up equity share capital of the company is Rs. 1 Crore and that of preference share capital is Rs. 50 Lakh.

(i) Find out the relative weight in the voting right of equity shareholders and preference shareholders.

(ii) Also the company proposing to issue equity shares with differential voting rights (DVR) to the extent of Rs. 50 lakhs. Assuming the company fulfils other conditions pertaining to the issue of shares with DVR. Can the company issue the shares with DVR?

(5 Marks)

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