

(GI-1, GI-2, GI-3, GI-4, VI-1 & SI-1)

DATE: 17.08.2019

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) 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 –
- Sale price of Rs. 50 lakhs is equal to fair value.
 - Fair value is Rs. 60 lakhs.
 - Fair value is Rs. 45 lakhs and sale price is Rs. 38 lakhs.
 - Fair value is Rs. 40 lakhs and sale price is Rs. 50 lakhs.
 - Fair value is Rs. 46 lakhs and sale price is Rs. 50 lakhs
 - Fair value is Rs. 35 lakhs and sale price is Rs. 39 lakhs.

(5 Marks)

- (b) A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are required to examine whether it should be treated as discontinuing operation as per AS 24?

(5 Marks)

- (c) Ram Ltd. is in the process of finalising its accounts for the year ended 31st March, 2017. The company seeks your advice on the following:
- The Company's sales tax assessment for assessment year 2014-15 has been completed on 14th February, 2017 with a demand of Rs. 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.

- (ii) The Company has entered into a wage agreement in May, 2017 whereby the labour union has accepted a revision in wage from June, 2016. The agreement provided that the hike till May, 2017 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September, 2017.

(5 Marks)

- (d) Milk Ltd. entered into an agreement with Curd Ltd. for sale of goods of Rs. 8 lakhs at a profit of 20% on cost. The sale transaction took place on 1st February, 2017. On the same day Curd Ltd. entered into another agreement with Milk Ltd. to resell the same goods at Rs. 10.80 lakhs on 1st August, 2017. State the treatment of this transaction in the financial statements of Milk Ltd. as on 31.03.2017. The pre-determined re-selling price covers the holding cost of Curd Ltd. Give the Journal Entries as on 31.03.2017 in the books of Milk Ltd.

(5 Marks)

Question 2:

- (a) Canon Ltd. went into voluntary liquidation on 31st December, 2016 when their Balance Sheet read as follows:—

Liabilities	Rs.
Issued and subscribed capital :	
5,000 10% cumulative preference shares of Rs. 100 each, fully paid	5,00,000
2,500 equity shares of Rs. 100 each, Rs. 75 paid	1,87,500
7,500 equity shares of Rs. 100 each, Rs. 60 paid	4,50,000
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
Creditors	3,18,750
	17,43,750
Assets	
Land and Building	2,50,000
Machinery and Plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Trade receivables	2,75,000
Cash at Bank	75,000
Profit and Loss A/c	2,81,250
	17,43,750

Preference dividends were in arrears for 2 years and the creditors included Preferential creditors of Rs. 38,000.

The assets realised as follows :

Land and Building Rs. 3,00,000; Machinery and Plant Rs. 5,00,000; Patents Rs. 75,000; Stock Rs. 1,50,000; Trade receivables Rs. 2,00,000.

The expenses of liquidation amounted to Rs. 27,250. The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures is made on 30th June, 2017 show the liquidator's Statement of Account.

(8 Marks)

- (b) Paper Limited comes out with a public issue of share capital on 01-01-2017 of 30,00,000 equity shares of Rs. 10 each at a premium of 5%. Rs. 2.50 is payable on application (on or before 31-01-2017) and Rs. 3 on allotment (31-3-2017) including premium. This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000. One of the allottees (using forms marked with name of White) for 6,000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately. 6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2017 and were re-allotted for payment in cash of Rs. 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form assuming that benefit of firm underwriting is given to individual underwriter and to prepare necessary journal entries to record the above events and transactions (including cash).

(12 Marks)**Question 3:**

- (a) The following are the summarized Balance Sheets of Coca Cola Ltd. and Pepsi Co. Ltd. as on 31.3.20X1:

Liabilities	(Rs. in thousands)	
	Coca Cola Ltd.	Pepsi Co. Ltd.
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	1,000	---
10% Debentures	500	---
Loans from Banks	250	450
Bank overdrafts	---	50
Trade payables	300	300

Total	4,050	1,800
Assets		
Tangible assets/fixed assets	2,700	850
Investments	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

Pepsi Co. Ltd. has acquired the business of Coca Cola Ltd. The following scheme of merger was approved:

- (i) Banks agreed to waive off the loan of Rs. 60 thousands of Pepsi Co. Ltd.
- (ii) Pepsi Co. Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).
- (iii) Shareholders of Coca Cola Ltd. will be given one share (new) of Pepsi Co. Ltd. in exchange of every share held in Coca Cola Ltd.
- (iv) Trade payables of Pepsi Co. Ltd. includes Rs. 100 thousands payable to Coca Cola Ltd.

Pass necessary entries in the books of Pepsi Co. Ltd. and prepare Balance Sheet after merger.

(10 Marks)

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

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised and issued capital: 12,000, 7% Preference shares of Rs. 50 each (Note: Preference dividend is in arrear for five years)	6,00,000	Building at cost less depreciation	4,00,000
15,000 Equity shares of Rs. 50 each	7,50,000	Plant at cost less depreciation	2,68,000
	13,50,000	Trademarks and 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.

(10 Marks)

Question 4:

From the following summarized balance sheets of Japan Sony Co. Ltd. and its subsidiary Sony India Ltd. drawn up at 31st March, 2017, prepare a consolidated balance sheet as at that date, having regard to the following:

- (i) Machinery (Book-value Rs. 1,00,000) and Furniture (Book value Rs. 20,000) of Sony India Ltd. were revalued at Rs. 1,50,000 and Rs. 15,000 respectively on 1st April, 2016 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

- (ii) Reserves and Profit and Loss Account of Sony India Ltd. stood at Rs. 25,000 and Rs. 15,000 respectively on the date of acquisition of its 80% shares by Japan Sony Co. Ltd. on 1st April, 2016.

Summarised Balance Sheet of Japan Sony Co. Ltd. as on 31st March, 2017

	Japan Sony Co. Ltd.	Sony India Ltd.	Assets	Japan Sony Co. Ltd.	Sony India Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity and Liabilities			Non-current assets		
Shareholders' funds			Fixed assets		
Share Capital			Machinery	3,00,000	90,000
Shares of Rs. 100 each	6,00,000	1,00,000	Furniture	1,50,000	17,000
Reserves	2,00,000	75,000	Other non-current assets	4,40,000	1,50,000
Profit and Loss			Non-current Investments		
Account	1,00,000	25,000	Shares in Sony India Ltd.:		
Trade Payables	1,50,000	57,000	800 shares at Rs. 200 each	1,60,000	—
	10,50,000	2,57,000		10,50,000	2,57,000

(20 Marks)

Question 5:

- (a) 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)

- (b) Sunlife General Insurance Company submits the following information for the year ended 31st March 2013:

Particulars	Direct Business Rs.	Reinsurance Rs.
Premium received	65,75,000	9,50,000
Premium paid	---	4,75,000
Claims paid during the year	42,50,000	5,00,000
Claims payable 1 st April, 2012	6,25,000	87,000
31 st March, 2013	7,18,000	60,000
Claims received	---	3,25,000
Claims receivable 1 st April, 2012		65,000
31 st March, 2013		1,10,000
Expenses of management	2,30,000	
Commission		
On insurance accepted	1,50,000	11,000
On insurance ceded		14,000

The following additional information is also available:

- Expenses of management include Rs. 35,000 surveyor's fee and Rs. 45,000 legal expenses for settlement of claims.
- Reserve for unexpired risk is to be maintained @ 40%. The balance of reserve for unexpired risk as on 1.4.12 was Rs. 24,50,000.

You are required to prepare the Revenue Account for the year ended 31st March, 2013.

(10 Marks)

Question 6: (Answer any four)

- (a) A company has its share capital divided into shares of Rs. 10 each. On 1-1-20X1, it granted 5,000 employees stock options at Rs. 50, when the market price was Rs. 140. The options were to be exercised between 1-3-20X2 to 31-03-20X2. The employees exercised their options for 4,800 shares only; remaining options lapsed. Pass the necessary journal entries for the year ended 31-3-20X2, with regard to employees' stock options.

(5 Marks)

- (b) 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 lakhs), on 10 accounts for more than 30 months (amount overdue Rs. 20 lakhs) and on 4 accounts for more than three years (amount over due 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 fourteen months and other are identified as sub-standard asset for a period of less than fourteen 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)

- (c) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2017.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 issued by your institute.

(5 Marks)

- (d) PPX Ltd. gives the following information about past profits:

Year	Profits (Rs. '000)
2011	21, 70
2012	22, 50
2013	23, 70
2014	24, 50
2015	21, 10

On scrutiny it is found (i) that upto 2013, PPX Ltd. followed FIFO method of finished inventory valuation thereafter adopted LIFO method, (ii) that upto 2014 it followed straight line depreciation and thereafter adopted written down value method.

Given below the details of Inventory valuation: (Figures in Rs. '000)

Year	Opening Inventory		Closing Inventory	
	FIFO	LIFO	FIFO	LIFO
2011	40,00	39,80	46,00	41,20
2012	46,00	41,20	49,20	47,90
2013	49,20	47,90	38,90	39,10
2014	38,90	39,10	42,00	38,50
2015	42,00	38,50	45,00	43,10

Straight line and written down value depreciation were as follows:

Year	Straight Line (Rs. '000)	W.D.V. (Rs. '000)
2011	12, 10	17, 00
2012	14, 15	18, 10
2013	15, 00	19, 25
2014	16, 70	19, 60
2015	18, 00	19, 40

Determine future maintainable profits that can be used for valuation of goodwill.

(5 Marks)

- (e) 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)
