

(GI-11, GI-12+15, GI-13+14, SI-5)

DATE: 25.05.2020

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) Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2015-2016 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2016-2017 financial year. In case of failure of Sun Ltd. to deliver within the schedule, a compensation of Rs. 1.5 crores is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of 2015-2016 financial year. As on balance sheet date (31.3.2016), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.
- (i) Should Sun Ltd. provide for contingency as per AS 29? Explain.
- (ii) Should provision be measured as the excess of compensation to be paid over the profit?
- (5 Marks)**
- (b) Identify the related parties in the following cases as per AS 18
- A Ltd. holds 51% of B Ltd.
B Ltd holds 51% of O Ltd.
Z Ltd holds 49% of O Ltd.
- (5 Marks)**
- (c) Base Limited is showing an intangible asset at Rs. 85 lakhs as on 1-4-2011. This asset was acquired for Rs.112 lakhs on 1-4-2008 and the same was available for use from that date. The company has been following the policy of amortization of the intangible asset over a period of 12 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant accounting standard.
- (5 Marks)**
- (d) Ram Ltd. had 12,00,000 equity shares on April 1, 2009. The company earned a profit of Rs. 30,00,000 during the year 2009-10. The average fair value per share during 2009-10 was Rs. 25. The company has given share option to its employees of 2,00,000 equity shares at option price of Rs. 15. Calculate basic E.P.S. and diluted E.P.S.
- (5 Marks)**

Question 2:

- (a) The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of Rs. 100 each fully paid up.

50,000 Equity shares of Rs. 10 each fully paid up.

30,000 Equity shares of Rs. 10 each, Rs. 8 paid up.

Assets realized Rs. 20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized Rs. 3,20,000)	3,50,000
Debenture holders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs. 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

(10 Marks)

- (b) Choice Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.20X1 for Rs. 20, 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. 50 each. These options will vest at the end of year 1 if the earning of Choice Ltd. is 16%, or it will vest at the end of the 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 will be 10%. 5,000 unvested options lapsed on 31.3.20X2. 4,000 unvested options lapsed on 31.3.20X3 and finally 3,500 unvested options lapsed on 31.3.20X4.

Following is the earning of Choice Ltd:

Year ended on	Earning (in %)
31.3.20X2	14%
31.3.20X3	10%
31.3.20X4	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

(10 Marks)

Question 3:

- (a) The following was the Balance Sheet of V Ltd. as on 31st March, 2015:

Particulars	Note No.	Amount (Rs. in lakhs)
Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
(a) Long-term Borrowings	3	630

(3) Current Liabilities		
Trade Payables		170
Total		1,863
Assets		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		1,863

Notes:

(1) Share Capital		
Authorised :		?
Issued, Subscribed and Paid up :		
80 lakhs Equity Shares of Rs. 10 each, fully paid up		800
35 lakhs 12% Cumulative Preference Shares of Rs. 10 each, fully paid up		350
Total		1,150
(2) Reserves and Surplus		
Profit & Loss Account		(87)
Total		(87)
(3) Long-term Borrowings		
10% Secured Cumulative Debentures of Rs. 100 each, fully paid up		600
Outstanding Debenture Interest		30
Total		630
(4) Tangible Assets		
Land and Buildings		445
Plant and Machinery		593
Furniture, Fixtures and Fittings		114
Total		1,152
(5) Cash and Cash Equivalents		
Balance at Bank		69
Cash in hand		6
Total		75

On 1st April, 2015, P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of Rs. 10 each issued at a premium of Rs. 2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of Rs. 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of Rs. 100 each, fully paid up after the takeover by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be Rs. 2 lakhs. P Ltd. discovered that its trade payables included Rs. 7 lakhs due to V Ltd. for goods purchased.

Also P Ltd.'s Inventory included goods of the invoice price of Rs. 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to :

- (i) Prepare Realisation A/c in the books of V Ltd.
- (ii) Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

(15 Marks)

(b) The following scheme of reconstruction has been approved for Win Limited:

- (i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of Rs. 10 each, the following:
 - (a) New fully paid Rs. 10 Equity shares equal to 3/5th of their holding.
 - (b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
 - (c) Rs. 40,000, 8% Debentures.
- (ii) An issue of Rs. 1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
- (iii) Goodwill which stood at Rs. 1,40,000 was completely written off.
- (iv) Plant and machinery which stood at Rs. 2,00,000 was written down to Rs. 1,50,000.
- (v) Freehold property which stood at Rs. 1,50,000 was written down by Rs. 50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

(5 Marks)

Question 4:

(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) 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
Reserves & Surplus			Less: Accumulated depreciation	(24,000)	(48,000)
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:

- Neel Ltd. is a subsidiary of Sky Ltd. Both the companies follow calendar year as the accounting year.
- 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.
- Neel Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.
- 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.

(10 Marks)

Question 5:

Consider the following summarized balance sheets:

	A Ltd. (As on 31 st March, 2017) Rs.	B Ltd. (As on 31 st December, 2016) Rs.		A Ltd. (As on 31 st March, 2017) Rs.	B Ltd. (As on 31 st December, 2016) Rs.
Share Capital			Fixed Assets	6,50,000	4,05,000
(Shares of Rs. 10 each)	10,00,000	5,00,000	Investment:		
Reserves and Surplus	4,50,000	2,05,000	40,000 Shares in B Ltd.	8,00,000	—
Secured Loan: 13%			1,000		
Debentures (Rs. 100 each)	—	3,00,000	Debentures in B Ltd.	1,50,000	—
Current Liabilities:			Current Assets:		
			Inventory	2,00,000	3,50,000
			Trade Receivables	1,50,000	2,65,000

Trade payables	3,80,000	80,000	Cash and Bank	80,000	1,05,000
Other liabilities	2,00,000	40,000			
	20,30,000	11,25,000		20,30,000	11,25,000

On 5th January 2017, certain inventory of B Ltd. costing Rs. 20,000 were completely destroyed by fire. The insurance company paid 75% of the claim.

On 20th January, 2017, A Ltd. sold goods to B Ltd. costing Rs. 1,50,000 at an invoice price of cost plus 20%.

50% of those goods were resold by B Ltd. to A Ltd. within 31st March, 2017 (these were then sold by A Ltd. to a third party before 31st March, 2017). As on 31st March, 2017, B Ltd. owes Rs. 60,000 to A Ltd. In respect of those goods. Pre-acquisition profits of B Ltd. were Rs. 75,000. Prepare consolidated balance sheet as on 31st March, 2017 after making necessary adjustments in the balance sheet of B Ltd.

(20 Marks)

Question 6: (Attempted any four)

(a) What is meant by Initial Disclosure event as per relevant A.S.

(5 Marks)

(b) 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)

(c) On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for Rs. 108 lakhs. On 31st March, 2019 the company found that it had already spent Rs. 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was Rs. 36.01 lakhs. You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Accounting for Construction Contracts."

(5 Marks)

(d) 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)

(e) M Ltd. furnishes the following summarized Balance Sheet as at 31st March, 20X1 :

	Rs. in '000	Rs. in '000
Equity & Liabilities		
Share Capital:		
Authorized Capital:		5,000
Issued and Subscribed Capital :		
3,00,000 Equity shares of Rs. 10 each fully paid up	3,000	
20,000 9% Preference Shares of 100 each	2,000	5,000
Reserve and Surplus:		
Capital reserve	10	
Revenue reserve	4,000	
Securities premium	500	
Profit and Loss account	1,800	6,310
Non-current liabilities - 10% Debentures		400
Current liabilities and provisions		40
		11,750
Assets		
Fixed Assets: Cost	3,000	
Less: Provision for depreciation	250	2,750
Non-current investments at cost		5,000
Current assets, loans and advances (including cash and bank balances)		4,000
		11,750

The company passed a resolution to buy back 20% of its equity capital @ Rs. 15 per share. For this purpose, it sold its investments of Rs.30 lakhs for Rs. 25 lakhs. You are required to pass necessary Journal entries.

(5 Marks)

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