

**(ALL CA INTERMEDIATE BATCHES)**

DATE: 08.01.2021

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) Mun Limited wishes to obtain a machine costing Rs. 30 lakhs by way of lease. The effective life of the machine is 14 years, but the company requires it only for the first 5 years. It enters into an agreement with Atar Ltd., for a lease rental for Rs. 3 lakhs p.a. payable in arrears and the implicit rate of interest is 15%. The chief accountant of Mun Limited is not sure about the treatment of these lease rentals and seeks your advise. You are required to explain the necessary accounting treatment in line with AS 19. (use annuity factor at @ 15% for 3 years as 3.36)  
**(5 Marks)**

- (b) The following information is available for MON Ltd. for the accounting year 2015-16 and 2016-17:

	Net Profit for	Rs.
Year	2015-16	35,00,000
Year	2016-17	45,00,000

No. of shares outstanding prior to right issue 15,00,000 shares.

Right issue : One new share for each 3 shares outstanding i.e. 5,00,000 shares.

: Right issue price Rs. 25

: Last date to exercise right 31<sup>st</sup> July, 2016

Fair value of one equity share immediately prior to exercise of rights on 31.07.2016 is Rs. 35.

You are required to compute:

- (i) Basic earnings per share for the year 2015-16.  
(ii) Restated basic earnings per share for the year 2015-16 for right issue.  
(iii) Basic earnings per share for the year 2016-17.

**(5 Marks)**

- (c) Mr. Saj a relative of key management personnel received remuneration of Rs. 2,50,000 for his services in the company for the period from 1.4.2016 to 30.6.2016. On 1.7.2016, he left the service. Should the relative be identified as at the closing date i.e. on 31.3.2017 for the purposes of AS 18?

**(5 Marks)**

- (d) Tun 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 Tun Ltd. to deliver within the schedule, a compensation of Rs. 1.5 crores is to be paid to X Ltd. Tun 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 Tun Ltd. will be in a position to meet the contractual obligation.

- (i) Should Tun 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)****Question 2:****(a)** Following is the summarized Balance Sheets as at March 31, 2013:

Liabilities	Rax Ltd.	Gini Ltd.	Assets	(Rs. '000)	
				Rax Ltd.	Gini Ltd.
Share capital:			Goodwill	20	--
Equity shares of Rs. 100 each	1,500	1,000	Other fixed assets	1,500	760
9% Preference shares of Rs. 100 each	500	400	Trade receivables	651	440
			Inventory	393	680
General reserve	180	170	Cash at bank	26	130
Profit and loss account	--	15	Own debenture		
12% Debentures of Rs. 100 each	600	200	(Nominal value Rs. 2,00,000)	192	
Trade payables	415	225	Discount on issue of debentures	2	
			Profit and loss account	411	
	3,195	2,010		3,195	2,010

On 1.4.2013, Rax Ltd. adopted the following scheme of reconstruction:

- (i) Each equity share shall be sub-divided into 10 equity shares of Rs. 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- (ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- (iii) Own debentures of Rs. 80,000 were sold at Rs. 98 cum-interest and remaining own debentures were cancelled.
- (iv) Debenture holders of Rs. 2,80,000 agreed to accept one machinery of book value of Rs. 3,00,000 in full settlement.
- (v) Trade payables, trade receivables and inventory were valued at Rs. 3,50,000, Rs. 5,90,000 and Rs. 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- (vi) The Company paid Rs. 15,000 as penalty to avoid capital commitments of Rs. 3,00,000.

On 2.4.2013 a scheme of absorption was adopted. Rax Ltd. would take over Gini Ltd. The purchase consideration was fixed as below:

- (a) Equity shareholders of Gini Ltd. will be given 50 equity shares of Rs. 10 each fully paid up, in exchange for every 5 shares held in Gini Ltd.
- (b) Issue of 9% preference shares of Rs. 100 each in the ratio of 4 preference shares of Rax Ltd. for every 5 preference shares held in Gini Ltd.
- (c) Issue of one 12% debenture of Rs. 100 each of Rax Ltd. for every 12% debentures in Gini Ltd.

You are required to give Journal entries in the books of Rax Ltd. and draw the resultant Balance Sheet as at 2nd April, 2013

**(12 Marks)****(b)** Z 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 Floating charge)	1,50,000	Stock	3,000
Bank overdraft	54,000	Debtors	1,50,000
Creditors	60,000	Investments	18,000
		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.

**(8 Marks)**

**Question 3:**

- (a) X Ltd. acquired 70% of equity shares of Y Ltd. on 1.4.2010 at cost of Rs. 10,00,000 when Y Ltd. had an equity share capital of Rs. 10,00,000 and reserves and surplus of Rs. 80,000. In the four consecutive years, Y Ltd. fared badly and suffered losses of Rs. 2,50,000, Rs. 4,00,000, Rs. 5,00,000 and Rs. 1,20,000 respectively. Thereafter in 2014-15, Y Ltd. experienced turnaround and registered an annual profit of Rs. 50,000. In the next two years i.e. 2015-16 and 2016-17, Y Ltd. recorded annual profits of Rs. 1,00,000 and Rs. 1,50,000 respectively.

You are required to compute the minority interests and cost of control at the end of each year for the purpose of consolidation.

**(10 Marks)**

- (b) The summarized Balance Sheet of Drishti Ltd. as on 31<sup>st</sup> 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

Manu Ltd. agreed to absorb the business of Drishti Ltd. with effect from 1<sup>st</sup> April, 2014.

- (a) The purchase consideration settled by Manu Ltd. as agreed:
- 4,50,000 equity Shares of Rs. 10 each issued by Manu Ltd. by valuing its share @ Rs. 15 per share.
  - Cash payment equivalent to Rs. 2.50 for every share in Drishti Ltd.
- (b) The issue of such an amount of fully paid 8% Debentures in Manu Ltd. at 96% as is sufficient to discharge 9% Debentures in Drishti Ltd. at a premium of 20%.

- (c) Manu 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 Drishti Ltd. was Rs. 75,000. Liquidation cost of Drishti Ltd. is to be reimbursed by Manu 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 Drishti Ltd. by preparing Realisation Account, Manu Ltd. Account, Shareholders Account and Debenture Account, and
- (ii) Pass Journal Entries in the books of Manu Ltd. regarding acquisition of business.

**(10 Marks)**

**Question 4:**

- (a) A Limited came up with an issue of 60,00,000 equity shares of Rs. 10 each at par. 15,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters D, E and F - equally with firm underwriting of 1,40,000 shares each, Subscriptions totalled 38,91,000 shares including the marked forms which were:

D 12,75,000 shares

E 13,50,000 shares

F 10,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were Rs. 2.50 and Rs. 2.00 respectively. The agreed commission was 5%.

You are required to give journal entries for -

- (a) The allotment of shares to the underwriters
- (b) The commission due to each of them and
- (c) The net cash paid and or received.

Note: Unmarked applications are to be credited to underwriters equally. Benefit of firm underwriting is given to individual underwriter.

**(8 Marks)**

- (b) KNN Ltd. has the following capital structure as on 31<sup>st</sup> March, 2017:

		Rs. in crore	
	Particulars	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

**(12 Marks)**

**Question 5:**

- (a) N Fire Insurance Co. Ltd. commenced its business on 1.4.20X1. It submits you the following information for the year ended 31.3.20X2:

	Rs.
Premiums received	15,00,000

Re-insurance premiums paid	1,00,000
Claims paid	7,00,000
Expenses of Management	3,00,000
Commission paid	50,000
Claims outstanding on 31.3.20X2	1,00,000
Create reserve for unexpired risk @50%	

Prepare Revenue account for the year ended 31.3.20X2.

**(10 Marks)**

- (b)** The following figures are extracted from the books of BLM 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 BLM 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 6: (Attempt any four)**

- (a)** A 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. 50,00,000 against which payment was made as follows:

Liquidation	Rs. 50,000
Secured Creditors	Rs. 20,00,000
Preferential Creditors	Rs. 1,50,000
The amount due to Unsecured creditors was	Rs. 30,00,000

You are asked to calculate the total Remuneration payable to Liquidator.

Calculation shall be made to the nearest multiple of a rupee.

**(5 Marks)**

- (b) 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)

- (c) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31<sup>st</sup> March, 2017 at a cost of Rs. 70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31<sup>st</sup> March, 2017:

	Rs. in lakhs
Fixed Assets	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets Up by 20%  
Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31<sup>st</sup> March, 2017. Exe Ltd. purchased the shares of Zed Ltd. @ Rs.20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(5 Marks)

- (d) Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

(5 Marks)

- (e) Amaresh has invested in two mutual funds. From the details given below, you are required to calculate effective yield on per annum basis in respect of each of the schemes to Amaresh up to 31.03.2017.

Mutual Fund	A	B
Date of Investment	1-12-2016	1-1-2017
Amount of investment (Rs.)	2,00,000	4,00,000
NAV at the date of investment (Rs.)	10.50	10.00
Dividend received upto 31-3-2017 (Rs.)	3,800	6,000
NAV as on 31-3-2017 (Rs.)	10.40	10.10

(5 Marks)

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