CA INTERMEDIATE

SUBJECT- **ADVANCED ACCOUNTS**

Test Code – CIM 8405

(Date :)

(Marks -100)

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION 1 (A) **(5 marks)**

With reference to AS 29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates:

(i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

(ii) During 2018-19 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2019-20, the financial condition of Brew Ltd. deteriorates and on 31st Dec. 2019, it goes into liquidation. (Balance Sheet date 31-3-19).

QUESTION 1 (B) **(5 marks)**

A Ltd. sold JCB having WDV of Rs. 20 lakhs to B Ltd. for Rs. 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" **explain the accounting treatment of profit or loss** in the books of A Ltd. If

(i) Sale price of Rs. 24 lakhs is equal to fair value.

(ii) Fair value is Rs. 20 lakhs and sale price is Rs. 24 lakhs. (iii) Fair value is Rs. 22 lakhs and sale price is Rs. 25 lakhs. (iv) Fair value is Rs. 25 lakhs and sale price is Rs. 18 lakhs.

(v) Fair value is Rs. 18 lakhs and sale price is Rs. 19 lakhs.

QUESTION 1 (C) **(5 marks)**

Suvidhi Ltd. offered 50 shares to each of its 1500 employees on 1st April 2017 for Rs. 30. Option would be exercisable within a year it is vested. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is Rs. 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 38 per share.

On 31st March, 2018,1200 employees accepted the offer and paid Rs. 30 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

QUESTION 1 (D) **(5 marks)**

Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31 st March, 2017 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2017.

Examine and discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

QUESTION 2 (A) **(15 MARKS)**

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	**P Ltd. Rs.**	**Q Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**Q Ltd. Rs.**
Equity Shares (Rs. 100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (Rs. 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include Rs. 25,000 due from Q Ltd.

PQ Ltd. will issue**:**

(i) 5 Preference shares of Rs. 20 each @ Rs. 18 paid up at a premium of Rs. 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of Rs. 20 each @ Rs. 18 paid up a premium of Rs. 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of Rs. 20 each for cash @ Rs. 18 paid up at a premium of Rs. 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

QUESTION 2 (B) **(5 MARKS)**

(a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to **identify the voting rights** of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is Rs. 80 Lakh and Preference share capital is Rs. 40 Lakh.

QUESTION 3 **(20 MARKS)**

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2017:

	H Ltd. (Rs.)	S Ltd. (Rs.)
Equity and Liabilities		
Shareholders' Funds		
Equity Share Capital (fully paid up shares of Rs. 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Profit and Loss Account	2,80,000	65,000
Current Liabilities		
Trade Payables	3,22,000	1,23,000
Total	22,37,000	5,43,000
	H Ltd. (Rs.)	**S Ltd. (Rs.)**
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ Rs. 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000
Total	22,37,000	5,43,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at Rs. 50,000 and Rs. 30,000 respectively. Machinery (book value Rs. 2,00,000) and Furniture (book value Rs. 40,000) of S Ltd. were revalued at Rs. 3,00,000 and Rs. 30,000 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% and Furniture 15%). Trade Payables of H Ltd. include Rs. 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above

cost. The inventories of H Ltd. includes goods costing Rs. 55,000 purchased from S Ltd.
You are required to prepare the Consolidated Balance Sheet as at 31 st March, 2017.

QUESTION 4 (A) **(15 MARKS)**

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31 -3-2017 and the information supplied, you are **required to prepare** (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares Rs.10 each	4,00,000	Goodwill at cost	36,100
Reserves and Surplus		Freehold Land Freehold Premises	1,20,000 2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account Secured Borrowings	(1,38,400)	Investment (marked to market)	64,000
9% Debentures (Rs.100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Inventories:	
Current liabilities Trade payables	1,20,000	Raw materials and packing materials 60,000	
Tax payable	50,000	Finished goods 16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital ofRs.7 lakhs). Both classes of shares are of Rs.10 each.

(2) The preference shares are to be reduced to Rs. 5 each and equity shares reduced by Rs. 3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were Rs. 10,000.

(6) The debenture holders took over freehold land at Rs.2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500.

(8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

QUESTION 4 (B) **(5 MARKS)**

From the following information of AY Limited, **<u>compute the provisions to be made in the Profit and Loss account:</u>**

	Rs. in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery Rs. 600 lakhs)	2,000
Loss Assets	1,500

QUESTION 5 **(20 MARKS)**

The following is the Balance Sheet of M/s Red and Black as on 31st March, 2018:

Liabilities		(Rs.)	Assets	(Rs.)
Red's Capital	80,000		Building	1,00,000
Black's Capital	1,00,000	1,80,000	Closing	60,000
Red's Loan		20,000	Stock Sundry	40,000
General		20,000	Debtors	40,000
Reserve Sundry		40,000	Investment	
Creditors			(6% Debentures in Cool	20,000
		2,60,000	Ltd.) Cash	2,60,000

It was agreed that Mr. White is to be admitted for a fifth share in the future profits from 1st April, 2018. He is required to contribute cash towards goodwill and Rs. 20,000 towards capital.

(a) The following further information is furnished:

(i) The partners Red and Black shared the profits in the ratio of 3 : 2.

(ii) Mr. Red was receiving a salary of Rs. 1,000 p.m. from the very inception of the firm in addition to the share of profit.

(iii) The future profit ratio between Red, Black and White will be 3 : 1 : 1. Mr. Red will not get any salary after the admission of Mr. White.

(iv) The goodwill of the firm should be determined on the basis of 2 years' purchase of the average profits from business of the last 5 years. The particulars of profits/losses are as under :

Year Ended	(Rs.)	Profit/Loss
31.3.2014	40,000	Profit
31.3.2015	20,000	Loss
31.3.2016	40,000	Profit
31.3.2017	50,000	Profit
31.3.2018	60,000	Profit

The above profits and losses are after charging the salary of Mr. Red. The profit of the year ended 31st March, 2014 included an extraneous profit of Rs. 60,000 and the loss for the year ended 31st March, 2015 was on account of loss by strike to the extent of Rs. 40,000.

(v) It was agreed that the value of the goodwill should not appear in the books of the firm.

(b) Trading profit for the year ended 31st March, 2019 was Rs. 80,000 (Before charging depreciation)

(c) Each partner had drawn Rs. 2,000 per month as drawing during the year 2018-19.

(d) On 31st March, 2019 the following balances appeared in the books:

Building (Before Depreciation)	Rs. 1,20,000
Closing Stock	Rs. 80,000
Sundry Debtors	Nil
Sundry Creditors	Nil
Investment	Rs. 40,000

(e) Interest was @ 6% per annum on Red's loan was not paid during the year.

(f) Interest on Debenture was received during the year.

(g) Depreciation is to be provided @ 5% on Closing Balance of Building.

(h) Partners applied for conversion of the firm into a private Limited Company i.e. RBW Private Limited. Certificate received on 1.4.2019.
They decided to convert Capital accounts of the partners into share capital, in the ratio of 3: 1: 1 (on the basis of total Capital as on 31.3.2019). If necessary, partners have to subscribe to fresh capital or withdraw.

<u>You are required to prepare :</u>

- Profit & Loss Account for the year ended 31st March, 2019 in the books of M/s Red and Black.
- Balance Sheet as on 1st April, 2019 in the books of RBW Private Limited.

QUESTION 6 (ANSWER ANY FOUR OUT OF FIVE QUESTIONS)

(A) LK Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 400 lakhs of which installments are overdue on 400 accounts for last two months (amount overdue Rs. 80 lakhs), on 24 accounts for three months (amount overdue Rs. 48 lakhs), on 10 accounts for more than 3 months (amount overdue Rs. 40 lakhs) and on 4 accounts for more than three years (amount over due Rs. 40 lakhs-already identified as sub-standard assets) and one account of Rs. 20 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 3 months, 6 accounts are already identified as sub-standard (amount Rs. 12 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)**

QUESTION 6 (B) **(5 MARKS)**

Sagar Ltd. has issued convertible bonds for Rs. 65 crores which are due to mature on 30th September, 2018.

While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. **How** should the company **classify** the convertible bonds as per the requirements of Schedule-Ill to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

QUESTION 6 (C) **(5 MARKS)**

From the following information given by Sampark Ltd., **Calculate** Basis EPS and Diluted EPS as per AS 20 :

	Rs.
Net Profit for the current year	2,50,00,000
No. of Equity Shares Outstanding	50,00,000
No. of 12% convertible debentures of Rs.100 each	50,000
Each debenture is convertible into 8 Equity Shares	
Interest expense for the current year	6,00,000
Tax saving relating to interest expense (30%)	1,80,000

QUESTION 6 (D) **(5 MARKS)**

XYZ Limited is being would up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

Dues to workers – Rs. 1,25,00,000
Taxes Payable to Government – Rs. 30,00,000
Unsecured Creditors – Rs. 60,00,000

You are **required to** compute with the reference to the provision 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. 4,00,00,000/-

QUESTION 6 (E) **(5 MARKS)**

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** advise whether it should it be treated as discontinuing operation as per AS 24?