



CA INTERMEDIATE
SUBJECT-ADVANCED ACCOUNTS
Test Code –PIN 5022

(Marks - 100)

Question 1 is compulsory and attempt any 4 out of remaining 5 questions

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of a note.

Question 1:

(A)

A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	Amount (Rs.)
11 th Feb, 2017	60,000
25 th Dec, 2017	40,000
04 th Oct, 2018	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to P & L account for the year ended 31st March, 2019.

(5 marks)

(B)

Arohi Ltd. sold goods for Rs. 90 lakhs to Anya Ltd. during financial year ended 31-3-2019. The Managing Director of Arohi Ltd. own 100% of Anya Ltd. The sales were made to Anya Ltd. at normal selling prices followed by Arohi Ltd. The Chief accountant of Arohi Ltd contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct? **Comment in accordance with AS 18.**

(5 marks)

(C)

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

- (1) Trade discount and volume rebate received.
- (2) Where goods are sold to distributors or others for resale.
- (3) Where seller concurrently agrees to repurchase the same goods at a later date.

- (4) Insurance agency commission for rendering services.
- (5) On 11-03-2019 cloths worth Rs. 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2019.

(5 marks)

(D)

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)

Question 2:

(A)

SMM Ltd. has the following capital structure as on 31st 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.**

(10 marks)

(B) M/s Xylem Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31st March, 2017 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount(Rs.)
Share Capital		Land & Building	42,70,000
50,000 shares of Rs. 50 each fully paid up	25,00,000	Machinery	8,50,000
1,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Computers	5,20,000
Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of Rs. 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of Rs. 100 each	6,00,000	Cash at Bank	2,68,000
Trade creditors	12,40,000	Profit & Loss Account	29,82,000
Outstanding Expenses	10,60,000		
	<u>1,03,00,000</u>		<u>1,03,00,000</u>

Following is the interest of Mr. A and Mr. B in M/s Xylem Limited:

	Mr. A	Mr. B
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs.12,50,000.
- (3) Trade creditors are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade creditors for Rs.7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. A agrees to cancel debentures amounting to Rs.2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to Rs.1,00,000.
- (5) Mr. B agrees to cancel debentures amounting to Rs.50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at Rs.51,84,000, Machinery at Rs.7,20,000, Computers at Rs.4,00,000, Inventories at Rs.3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to prepare necessary Journal Entries for all the above transactions.

(10 marks)

Question 3:

(A)

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
<u>Equity & liabilities:</u>			<u>Assets:</u>		
<u>Shareholders Fund</u>			<u>Non-current Assets:</u>		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	<u>Current Assets</u>		
<u>Current Liabilities</u>			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	<u>2,40,000</u>	<u>5,40,000</u>	c. Cash at Bank	<u>3,00,000</u>	-
	<u>18,60,000</u>	<u>25,20,000</u>		<u>18,60,000</u>	<u>25,20,000</u>

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 Rs. 3,00,000; 2015-16 Rs. 5,25,000 and 2016-17 Rs. 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. proceeded to issue 72,000 shares of Rs. 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

- (i) **Calculate** the number of shares issued to P Ltd. and Q Ltd; and
- (ii) **Prepare** the Balance Sheet of PQ Ltd. as per Schedule III.

(12 marks)

- (B) The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	Rs.
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

- (i) A customer to whom a sum of Rs. 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- (ii) There were also other debts for which a provision of Rs.2,10,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31.3.2016 was Rs.19,000 and on 31.3.2017 was Rs.25,000.
- (iv) Preliminary expenses are to be fully written off during the year.
- (v) Provide Rs.9,00,000 for Income-tax.
- (vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

(8 marks)

Question 4:

The following is the Balance Sheet of M/s. Pratham and Kaushal as on 31st March, 2019:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Machinery	54,000
Pratham	50,000	Furniture	5,000
Kaushal	30,000	Investments (non-trading)	50,000
Reserves	20,000	Stock	20,000
Loan Account of Kaushal	15,000	Debtors	21,000

Creditors	40,000	Cash	5,000
	1,55,000		1,55,000

It was agreed that Mr. Rohan is to be admitted for a fourth share in the future profits from 1st April, 2019. He is required to contribute cash towards goodwill and Rs. 15,000 towards capital.

The following further information is furnished:

- Pratham & Kaushal share the profits in the ratio 3 : 2.
- Pratham was receiving salary of Rs. 750 p.m. from the very inception of the firm in 2012 in addition to share of profit.
- The future profit ratio between Pratham, Kaushal & Rohan will be 2:1:1. Pratham will not get any salary after the admission of Rohan.
- It was agreed that the value of goodwill of the firm shall be determined on the basis of 3 years' purchase of the average profits from business of the last 5 years. The particulars of the profits are as under:

Year ended	Profit/(Loss)
31 st March, 2015	25,000
31 st March, 2016	12,500
31 st March, 2017	(2,500)
31 st March, 2018	35,000
31 st March, 2019	30,000

The above Profits and Losses are after charging the Salary of Pratham. The Profit of the year ended 31st March, 2015 included an extraneous profit of Rs. 40,000 and the loss for the year ended 31st March, 2017 was on account of loss by strike to the extent of Rs.20,000.

- The cash trading profit for the year ended 31st March, 2020 was Rs. 50,000 before depreciation.
- The partners had drawn each Rs. 1,000 p.m. as drawings.
- The value of other assets and liabilities as on 31st March, 2020 were as under:

Machinery (before depreciation)	60,000
Furniture (before depreciation)	10,000
Investment	50,000
Stock	15,000
Debtors	30,000
Creditors	20,000

- (h) Provide depreciation @ 10% on Machinery and @ 5% on Furniture on the Closing Balance and interest is accumulated @ 6% on Kaushal's loan. The loan along with interest would be repaid within next 12 months.
- (i) Investments (non -trading) are held from inception of the firm and interest is received @ 10% p.a.
- (j) The partners applied for conversion of the firm into Karma Ltd., a Private Limited Company. Certificate was received on 1st April, 2020. They decided to convert Capital Accounts of the partners into share capital in the ratio of 2:1:1 on the basis of a total Capital as on 31st March, 2020. If necessary, partners have to subscribe to fresh capital or withdraw.

Prepare the Profit and Loss Account of the firm for the year ended 31st March, 2020 and the Balance Sheet of the Company on 1st April, 2020.

(20 marks)

Question 5:

(A)

Given below are the Profit & Loss Accounts of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March,2017:

	Hello Ltd. (Rs. in lacs)	Sun Ltd. (Rs. in lacs)
Incomes:		
Sales and other income	10,000	2,000
Increase in Inventory	<u>2,000</u>	<u>400</u>
	<u>12,000</u>	<u>2,400</u>
Expenses:		
Raw material consumed	1,600	400
Wages and Salaries	1,600	300
Production expenses	400	200
Administrative Expenses	400	200
Selling and Distribution Expenses	400	100
Interest	200	100
Depreciation	<u>200</u>	<u>100</u>
	<u>4,800</u>	<u>1,400</u>
Profit before tax	7,200	1,000
Provision for tax	<u>2,400</u>	<u>400</u>
Profit after tax	4,800	600
Dividend paid	<u>2,400</u>	<u>300</u>
Balance of Profit	<u>2,400</u>	<u>300</u>

Other Information:

Hello Ltd. Sold goods to Sun Ltd. Of Rs. 240 lacs at cost plus 20% .Inventory of Sun Ltd. includes such goods valuing Rs. 48 lacs. Administrative expenses of Sun Ltd. include Rs. 10 lacs paid to Hello Ltd. As consultancy fees .Selling and distribution expenses of Hello Ltd. Include Rs.20 lacs paid to Sun Ltd. as commission.

Hello Ltd. holds 80% of equity share capital of Rs.2,000 lacs in Sun Ltd. prior to 2015-2016 .Hello Ltd. took credit to its Profit and Loss Account, the proportionate amount of dividend declared and paid by Sun Ltd. for the year2015-2016.

You are required to prepare a consolidated profit and loss account of Hello Ltd. and its subsidiary Sun Ltd. for the year ended 31st March, 2017. (15 marks)

(B) Alpha Ltd. is under the process of liquidation. 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. 37,50,000 against which payment was made as follows:

Liquidation Expenses	Rs.37,500
Secured Creditors	Rs.15,00,000
Preferential Creditors	Rs.1,12,500

The amount due to Unsecured Creditors was Rs. 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator.

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

(5 marks)

Question 6:

(A) Explain the criterion of income recognition in the case of Non Banking Financial Companies. (5 marks)

(B)

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. You are required to prepare the **necessary journal entries for the year ended 31-3-20X2**, with regard to employees' stock options.

(5 marks)

(C) Explain the conditions under Companies (Share Capital and Debentures) Rules, 2014, to deal with equity shares with differential rights.

(5 marks)

(D) A construction contractor has a fixed price contract for Rs. 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under:

	(Amount Rs. in lacs)		
	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	-	200	200

Contracts costs incurred up to the reporting date	2,093	6,168*	8,100**
Estimated profit for whole contract	950	1,000	1,000

*Includes Rs. 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes Rs. 100 lacs for standard material brought forward from year 2. The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

(5 marks)