



CA INTERMEDIATE  
SUBJECT-ADVANCED ACCOUNTS

Test Code – PIN 5032

(Date :)

(Marks - 100)

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

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

**(2) NEW QUESTION SHOULD BE ON NEW PAGE**

**QUESTION NO.1**

**(5 MARKS X 4 =20 MARKS)**

- A. XYZ Ltd. has not made provision for warrantee in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warrantees on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29.
- B. ABC Ltd. took a machine on lease from XYZ Ltd., the fair value being Rs.10,00,000. The economic life of the machine as well as the lease term is 4 years. At the end of each year, ABC Ltd. pays Rs.3,50,000. The lessee has guaranteed a residual value of Rs.50,000 on expiry of the lease to the lessor. However, XYZ Ltd. estimates that the residential value of the machinery will be Rs.35,000 only. The implicit rate of return is 16% and PV factors at 16% for year 1, year 2, year 3 and year 4 are 0.8621, 0.7432, 0.6407 and 0.5523 respectively. You are required to calculate the value of machinery to be considered by ABC Ltd. and the finance charges for each year.
- C. Following information is supplied by KLtd.:
- Number of shares outstanding prior to right issue - 2,50,000 shares.
  - Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)
  - Right issue price - Rs. 98
  - Last date of exercising rights - 30-06-2018.
  - Fair value of one equity share immediately prior to exercise of right on 30-06-2018 is Rs. 102.
  - Net Profit to equity shareholders:
    - 2017-2018 - Rs. 50,00,000
    - 2018-2019 -Rs. 75,00,000

**You are required to calculate the basic earnings per share as per AS-20 Earnings per Share.**

**D. AsperprovisionsofAS-26,howwouldyodealtothefollowingsituations:**

- a. Rs.23,00,000paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capitalexpenditure.

- b. During the year 2018-19, a company spent Rs.7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.
- c. A company spent Rs.25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize Rs.25,00,000 by disclosing it as a prior period item.
- d. A company with a turnover of Rs.200 crores and an annual advertising budget of Rs. 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of Rs. 20 crore from the new product.

The company had debited to its Profit & Loss Account the total expenditure of Rs. 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

**QUESTION NO.2**

**(10 MARKS X 2 =20 MARKS)**

A. The following is the Balance Sheet of Star Ltd. as on 31<sup>st</sup> March, 2019:

	Rs.
<b>A. Equity &amp; Liabilities</b>	
<b>1. Shareholders' Fund:</b>	
<b>(a) Share Capital:</b>	
9,000 7% Preference Shares of Rs. 100 each fully paid	9,00,000
10,000 Equity Shares of Rs. 100 each fully paid	10,00,000
<b>(b) Reserve &amp; Surplus:</b>	
Profit & Loss Account	(2,00,000)
<b>2. Non-current liabilities:</b>	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
<b>3. Current Liabilities and Provisions:</b>	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	<u>1,25,000</u>
<b>Total</b>	<u><b>24,90,000</b></u>
<b>B. Assets:</b>	
<b>Non-current Assets:</b>	
<b>1. PPE:</b>	
Bombay Works	9,50,000
Chennai Works	7,75,000
<b>2. Investment:</b>	
Investments for Workman's Compensation Fund	15,000
<b>3. Current Assets:</b>	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	<u>50,000</u>

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

- (i) Paid up value of 7% Preference Share to be reduced to Rs.80, but the rate of dividend being raised to 9%.
- (ii) Paid up value of Equity Shares to be reduced to Rs.10.
- (iii) The directors to refund Rs.50,000 of the fees previously received by them.
- (iv) Debenture holders forego their interest of Rs.26,000 which is included among the trade payables.
- (v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
- (vi) "B" 6% Debenture holders agreed to take over the Chennai Works at Rs.4,25,000 and to accept an allotment of 1,500 equity shares of Rs. 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs. 10 each fully paid at par to Star Ltd.
- (vii) The Chennai Workmen's compensation fund disclosed that there were actual liabilities of Rs.1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
- (viii) Inventory was to be written off by Rs.1,90,000 and a provision for doubtful debts is to be made to the extent of Rs.20,000.
- (ix) Chennai works completely written off.
- (x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

**Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.**

- B. A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. **Find out the risk-adjusted asset and risk weighted assets ratio –**

<b>Capital Funds:</b>	<b>(Figures in Rs. lakhs)</b>
Equity Share Capital	4,80,00
Statutory Reserve	2,80,00
Capital Reserve (of which Rs. 280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
<b>Assets:</b>	
Cash Balance with RBI	4,80
Balances with other Bank	12,50
Claims on Banks	28,50
Other Investments	782,50
<b>Loans and Advances:</b>	
(i) Guaranteed by government	128,20
(ii) Guaranteed by public sector undertakings of Government of India	702,10

(iii) Others	52,02,50
Premises, furniture and fixtures	182,00
Other Assets	201,20
Off-Balance Sheet Items:	
Acceptances, endorsements and letters of credit	37,02,50

**QUESTION NO.3**

**(20 MARKS)**

On 31st March, 2017 the summarized Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

<b>Liabilities</b>	<b>H Ltd.</b>	<b>S Ltd.</b>
	<b>Rs. in lakhs</b>	<b>Rs. in lakhs</b>
Share Capital:		
Authorized	15,000	6,000
Issued and Subscribed:		
Equity Shares of Rs. 10 each, fully paid up	12,000	4,800
General Reserve	2,784	1,380
Profit and Loss Account	2,715	1,620
Bills Payable	372	160
Trade Payables	1,461	854
Provision for Taxation	855	394
Dividend payable	1,200	-
	<b>21,387</b>	<b>9,208</b>
<b>Assets</b>	<b>H Ltd.</b>	<b>S Ltd.</b>
	<b>Rs. in lakhs</b>	<b>Rs. in lakhs</b>
Land and Buildings	2,718	-
Plant and Machinery	4,905	4,900
Furniture and Fittings	1,845	586
Investments in shares in S Ltd.	3,000	-
Stock	3,949	1,956
Trade Receivables	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivable	360	199
Sundry Advances	520	-
	<b>21,387</b>	<b>9,208</b>

The following information is also provided to you:

- H Ltd. purchased 180 lakh shares in S Ltd. on 1st April, 2016 when the balances of General Reserve and Profit and Loss Account of S Ltd. stood at Rs. 3,000 lakh and Rs. 1,200 lakh respectively.
- On 31st March, 2016, S Ltd. declared a dividend @ 20% for the year ended 31st March,

2016. H Ltd. credited the dividend received by it to its Profit and Loss Account.

- (c) On 1st January, 2017, S Ltd. issued 3 fully paid-up bonus shares for every 5 shares held out of balances of its general reserve as on 31st March, 2016.
- (d) On 31st March, 2017, all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only Rs. 45 lakh of these acceptances in hand, the rest having been endorsed in favour of its trade payables.
- (e) On 31st March, 2017, S Ltd.'s inventory included goods which it had purchased for Rs. 100 lakh from H Ltd. which made a profit @ 25% on cost.

**Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2017.**

#### QUESTION NO.4

A. The following are the Balance Sheets of Mahima Ltd and Nithya Ltd, as at 31st March - (Rs. in Lakhs)

Liabilities	Mahima	Nithya	Assets	Mahima	Nithya
Share Capital:			Plant and Machinery	4,215	468
Fully paid Equity Shares of Rs. 10 each	3,600	900	Furniture and Fixtures	2,400	183
10% Pref. Shares of Rs. 10 each, fully paid up	1,200	Nil	Motor Vehicles	Nil	51
Capital Reserve	600	Nil	Stock	2,370	444
General Reserve	2,100	Nil	Sundry Debtors	1,044	237
Profit and Loss Account	780	Nil	Cash at Bank	1,542	240
8% Redeemable Debentures of Rs. 1,000 each	Nil	300	Preliminary Expenses	Nil	33
Trade Creditors	2,421	369	Discount on Issue of Debentures	Nil	6
Provisions	870	93			
<b>Total</b>	<b>11,571</b>	<b>1,662</b>	<b>Total</b>	<b>11,571</b>	<b>1,662</b>

A new Company Sona Ltd was got incorporated with an Authorised Capital of Rs. 15,000 Lakhs divided into Shares of Rs. 10 each. In an amalgamation in the nature of Merger, Mahima Ltd & Nithya Ltd were merged into Sona Ltd on the following terms -

- (a) Purchase Consideration for MahimaLtd's business is to be discharged by issue of 120 Lakhs fully paid 11% Preference Shares and 720 Lakhs fully paid Equity Shares of Sona Ltd to the Preference and Equity Shareholders of Mahima Ltd in full satisfaction of their claims.
- (b) To discharge Purchase Consideration for NithyaLtd's business, Sona Ltd to allot 90 Lakhs fully paid up Equity Shares to Shareholders of Nithya Ltd in full satisfaction of their claims.
- (c) Expenses on the liquidation of Mahima Ltd and Nithya Ltd amounting to Rs. 6 Lakhs are to be borne by Sona Ltd.
- (d) 8% Redeemable Debentures of Nithya Ltd to be converted into 8.5% Redeemable

Debentures of Sona Ltd.

- (e) Expenses on Incorporation of Sona Ltd were Rs. 15 Lakhs.

**You are required to -**

- (a) Pass necessary Journal Entries in the books of Sona Ltd to record above transactions, and  
 (b) Prepare Balance Sheet of Sona Ltd after Merger. **(15 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.**

**(5 MARKS)**

**QUESTION NO.5**

- A. G, S & J were partners sharing profits and losses in the ratio of 4:3:2, no partnership salary or interest on capital being allowed. Their Balance Sheet as on 31.3.2019 is as follows:

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
Partners' fixed capital accounts:			Fixed assets:		
G	24,000		Goodwill	48,000	
S	24,000		Land	9,600	
J	<u>12,000</u>	60,000	Plant & Machinery	15,360	
Partners' current accounts:			Motor car	<u>840</u>	73,800
G	600		Current assets:		
S	10,800		Stock		4,680
J	<u>(480)</u>	10,920	Trade debtors	2,400	
Loan from G		9,600	Less: provision	<u>120</u>	2,280
Trade creditors		14,880	Cash at bank		240

			Miscellaneous losses:		
			Profit & loss sale		<u>14,400</u>
		<u>95,400</u>			95,400

On 1<sup>st</sup> April, 2019, the partnership was dissolved. Motor car was taken over by G at a value of Rs. 600, but no cash was given specifically in respect of this transaction. Sale of other assets realized the following amounts:

Particulars	Rs.
Goodwill	Nil
Land	8,400
Plant & machinery	6,000
Stock	3,600
Trade debtors	1,920

Trade creditors were paid Rs.14,040 in full settlement of their debts. The cost of dissolution amounted to Rs.1,800. The loan from G was repaid; G and S both were fully solvent and able to bring in any cash required but J was forced into bankruptcy and was only able to bring 1/2 of the amount due.

**You are required to prepare:**

- (i) Cash & Bank account
- (ii) Realization account, and
- (iii) Partners' Fixed Capital Accounts (after transferring current accounts balances)

Apply Garner Vs. Murray rule.

**(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 NO.6****(5 MARKS X 4 =20 MARKS)**

A. The following particulars are stated in the Balance Sheet of PQR Ltd. as on 31.03.2018:

	(` in lakh)
Deferred Tax Liability (Cr.)	30.00
Deferred Tax Assets (Dr.)	15.00

The following transactions were reported during the year 2018 -2019:

i.	Tax Rate	30%
		(` in lakh)
ii.	Depreciation as per books	80.00
	Depreciation for tax purposes	70.00
iii.	Items disallowed in 2017-2018 and allowed for tax purposes in 2018-2019.	10.00
iv.	Donations to Private Trust made in 2018-2019.	10.00

There were no additions to Fixed Assets during the year.

**You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31.03.2019.**

B. The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd as on 31st March -

<b>Equity &amp; Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
1. Shareholders Funds :		1. Non Current Assets	
(a) Share Capital :		(a) Fixed (Tangible) Assets	
1,00,000 Equity shares of Rs.10 each fully paid up	10,00,000	:	
(b) Reserve & Surplus :		Land and Building	21,50,000
Securities Premium	3,00,000	Plant and Machinery	15,00,000
General Reserve	2,50,000	(b) Non Current Investments	2,00,000
Profit & Loss Account Surplus	1,50,000	2. Current Assets	
2. Non Current Liabilities :		(a) Trade Receivables	5,50,000
Long Term Borrowings :		(b) Inventories	1,80,000
10% Debentures (Secured by floating charge on all assets)	20,00,000	(c) Cash & Cash Equivalents	40,000
Unsecured Loans	8,00,000		
3. Current Liabilities & Provisions : Trade Payables	1,20,000		
<b>Total</b>	<b>46,20,000</b>	<b>Total</b>	<b>46,20,000</b>

On 21st April, the Company announced the Buy Back of 25,000 of its Equity Shares at Rs. 15 per Share. For this purpose, it sold all of its Investments for Rs. 2.50 Lakhs. On 25th April, the Company achieved the target of Buy Back. On 1st May, the Company issued one fully paid up Equity Share of Rs. 10 by way of Bonus, for every Five Equity Shares held by the Equity Shareholders.

**Pass necessary Journal Entries for the above transactions.**

- C. **Calculate the Provision to be made against Advances by NBFC** as per Prudential Norms, from the following data -

<b>Particulars</b>	<b>Rs. In Lakhs</b>
Standard Assets	10,000
Sub-Standard Assets	1,000
Secured Portion of Doubtful Debts	
- Upto one year	160
- One year to three year	70
- More than three years	20
Unsecured portion of Doubtful Debts	90
Loss Assets	30

- D. How is Minimum Alternative Tax (MAT) to be presented in the financial statements?