



CA INTERMEDIATE NOV 19
SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8460

(Date :)

(Marks - 100)

TOPIC : FULL ADVANCED ACCOUNTS

Question No.1 is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.

QUESTION 1 (A)

(5 MARKS)

Given below are the following informations of B.S. Ltd.

- (i) Goods of Rs. 50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.
- (ii) On 13-01-2018 goods of Rs. 1,25,000 are sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.
- (iii) Rs. 1,00,000 worth of goods were sold on approval basis on 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9.

QUESTION 1 (B)

(5 MARKS)

XYZ Ltd. has not made provision for warranty 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 warranties 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.

QUESTION 1 (C)

(5 MARKS)

Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being Rs. 11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays Rs. 3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of Rs. 70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only Rs. 25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1st, 2nd, 3rd and 4th year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the **value of the lease liability** as per AS-19.

QUESTION 1 (D)

(5 MARKS)

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."

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

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2019:

	H Ltd. (Rs.)	S Ltd. (Rs.)
<u>Equity and Liabilities</u>		
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	<u>3,25,000</u>	<u>1,25,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>
	H Ltd. (Rs.)	S Ltd. (Rs.)
<u>Assets</u>		
Non-Current Assets		
Property, Plant and Equipment	6,40,000	1,80,000
	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	4,73,000	2,37,000
Cash and Bank	<u>1,64,000</u>	<u>32,000</u>
Total	<u>22,40,000</u>	<u>5,45,000</u>

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2018. 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, 2018 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. 40,000 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 (cost to H Ltd.) purchased from S Ltd.

You are required to **prepare the Consolidated Balance Sheet** of H Ltd. with its subsidiary S Ltd. as at 31st March, 2019.

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(A)**(10 MARKS)**

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Equity and Liabilities		
Equity Shares of Rs. 10 each	12,00,000	6,00,000
10% Pref. Shares of Rs. 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	<u>5,00,000</u>	<u>3,00,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	<u>2,20,000</u>	<u>80,000</u>
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	<u>1,20,000</u>	<u>40,000</u>
	<u>8,40,000</u>	<u>4,20,000</u>
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	<u>60,000</u>	<u>50,000</u>
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, **VT Ltd. will absorb MG Ltd.** on the following terms:

- VT Ltd. will issue 16 Equity Shares of Rs. 10 each at par against 12 Shares of MG Ltd.
- 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of Rs. 100 each, at par, in VT. Ltd.
- 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.
- Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- Sundry Debtors of MG Ltd. includes Rs. 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

QUESTION 3(B)**(10 MARKS)**

BT Ltd. went into Voluntary Liquidation on 31st March, 2018, when their detailed Balance Sheet was as follows:

Liabilities	In Rs.
Issued & Subscribed Capital	
10,000 12% cumulative preference shares of Rs. 100 each, fully paid	10,00,000
10,000 Equity Shares of Rs. 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of Rs. 100 each 60 per share paid up	12,00,000
Profit & Loss Account	(5,25,000)
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
	43,95,000
Assets	
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700
	43,95,000

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of Rs. 75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under:

	In Rs.
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

- Expenses of liquidation amounted to Rs. 45,000.
- The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank).
- All payments were made on 30th June, 2018.

You are required to **prepare the Liquidator's Final Statement** of Account as on 30th June, 2018. Working Notes should form part of the answer.

QUESTION 4(A)**(10 MARKS)**

- (i) The following is an extract of Trial Balance of SM Bank, an overseas bank as on 31st March, 2018.

	Dr. Rs.	Cr. Rs.
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31 st March, 17		26,592

An analysis of bill discounted is as follows :

Amount in Rs.	Due Date	Rate of Discount
1,46,200	4 th May, 2018	15
2,30,400	12 th May, 2018	15
4,35,900	28 th May, 2018	15
4,36,200	18 th June, 2018	16
2,68,100	4 th July, 2018	16

You are required to **calculate Rebate on Bills Discounted** as on 31st March, 2018 and **show necessary Journal Entries**.

(ii) The following information are also given for SM Bank :

Assets	Rs. in Lakhs
Standard	75,00
Sub-Standard	60,00
Doubtful: for 1 Year (fully secured)	12,00
for 1 to 3 Year (fully secured)	9,00
for more than 3 Years	9,00
Loss Assets	15,00

Additional Information:

- (1) Standard Assets includes Rs. 15,00 Lakhs Advances to Commercial Real Estate (CRE).
- (2) Out of Rs. 60,00 Lakhs of Sub-Standard Asset Rs. 20,00 Lakhs are unsecured. Unsecured amount includes Rs. 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.
- (3) Doubtful Asset for more than 3 Years includes Rs. 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is Rs. 150 Lakhs.

You are required to **find out the amount of provision to be shown in the Profit & Loss Account** of SM Bank.

QUESTION 4(B)

(10 MARKS)

Aarohi Ltd. made a public issue of 11,00,000 equity shares of Rs. 10 each at a premium of Rs. 10, the amounts payable on application were Rs. 4 along with the full amount of premium and Rs. 6 at allotment. Out of the above 1,00,000 equity shares were issued to promoters and the balance was offered to the public which was underwritten by three underwriters Ashish, Alok and Ajay as follows: -

Ashish - 4,00,000 shares including firm underwriting 80,000 shares

Alok - 3,00,000 shares including firm underwriting 30,000 shares

Ajay - 3,00,000 shares including firm underwriting 1,10,000 shares

Total subscriptions received by Aarohi Ltd. were 1,50,000 shares (excluding firm underwriting and marked applications)

The marked applications (excluding firm underwriting) were:

Ashish - 97,500 shares,

Alok - 1,95,000 shares and

Ajay - 1,48,500 shares.

Underwriters are entitled to maximum commission permissible by law on the issue price of shares. The underwriting contract provides that benefit of firm underwriting is to be given to individual underwriters. **You are required to :**

- (i) Determine the liability of each underwriter in number of shares;
- (ii) Compute the amounts payable to or due from underwriters; and
- (iii) Pass Journal Entries in the books of the company relating to underwriting.

QUESTION 5(A)**(10 MARKS)**

The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2016
Number of employees covered	50
Number of options granted per employee	1,000
Fair value of option per share on grant date (Rs.)	9

The options will vest to employees serving continuously for 3 years from vesting date, provided the share price is Rs. 65 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/17, 47 on 31/03/18. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2018-19 was Rs. 68.

You are required to compute expenses to be recognised in each year in the books of the company.

QUESTION 5(B)**(10 MARKS)**

The summarized Balance Sheet of T Ltd. for the year ended on 31st March, 2016, 2017 and 2018 are as follows:

	(Rs. in thousands)		
Liabilities	31.03.2016	31.03.2017	31.03.2018
1,60,000 equity shares of Rs. 10 each, fully paid	1,600	1,600	1,600
General Reserve	1,200	1,400	1,600
Profit and Loss Account	140	160	240
Trade Payable	<u>600</u>	<u>800</u>	<u>1,000</u>
	3,540	3,960	4,440
Assets:			
Goodwill	1,000	800	600
Building & Machinery less depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivable	20	160	440
Bank Balance	<u>120</u>	<u>200</u>	<u>400</u>
	3,540	3,960	4,440

Additional Information :

(i) Actual Valuations were as under:

Building & Machinery less depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net Profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve)	420	620	820

(ii) Capital employed in the business at market value at the beginning of 2015-16 was Rs. 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12.5%.

(iii) The balance in the general reserve on 1st April, 2015 was Rs. 10 lakhs.

(iv) The goodwill shown on 31.03.2016 was purchased on 1.4.2015 for Rs. 10 lakhs on which date the balance in the Profit & Loss account was Rs. 1,20,000.

You are required to **find out the average capital employed** in each year. Also, **compute Goodwill**, to be valued at 5 year's purchase of Super profit (Simple average method).

Q- 6 : Answer any four of the following :

QUESTION 6(A)

(5 MARKS)

While closing its books of account on 31st March, 2018 a Non-Banking Finance Company has its advances classified as follows:

	Rs. in lakhs
Standard assets	13,400
Sub-standard assets	670
Secured portions of doubtful debts:	
– Up to one year	160
– one year to three years	45
– more than three years	20
Unsecured portions of doubtful debts	48
Loss assets	24

You are required to **Calculate the amount of provision**, which must be made against the Advances as per the Non-Banking Financial Company –Systemically Important Non- Deposit taking Company (Reserve Bank) Directions, 2016.

QUESTION 6(B)

(5 MARKS)

From the following information given by M/s Short Live Insurance Co. Ltd., you are required to **pass necessary Journal Entries relating to Unexpired Risk Reserve.**

- (i) On 31.03.2017, it had reserve for unexpired risks amounting to Rs. 160 crores. Its composition was as under:
 - (a) Rs. 60 crores in respect of Marine Insurance Business
 - (b) Rs. 80 crores in respect of Fire Insurance Business
 - (c) Rs. 20 crores in respect of Misc. Insurance Business
- (ii) M/s Short Live Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine Insurance Business and 50% of net premium income in respect of Fire and Misc. income policies.
- (iii) During 2017-18, the following business was conducted:

Premium Collected From:	Rs. In crores		
	Marine	Fire	Misc.
Insured in respect of Policies issued	72	172	48
Other Insurance Companies in respect of risks undertaken	28	20	16
Premium paid/payable to other insurance companies on business ceded	40	20	30

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

The following scheme of reconstruction has been approved for Bheema 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 & 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 necessary **Journal entries in the books of Bheema Limited** for the above reconstruction.

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

A Mutual Fund purchased 20,000 debentures of a company on June 1, 2017 for Rs. 21.40 lakh and further 10,000 debentures on 1st November, 2017 for Rs. 10.90 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31st March and 30th September. On Feb 28, 2018 the fund sold 12,000 of these debentures for Rs. 13.56 lakh. Nominal value per debenture is Rs.100.

Show Investment in Debentures A/c in books of the Mutual Fund.

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

The following information relates to M/s. XYZ Limited for the year ended 31st March, 2019:

Net Profit for the year after tax: Rs. 37,50,000

Number of Equity Shares of Rs. 10 each outstanding: Rs. 5,00,000

Convertible Debentures Issued by the Company (at the beginning of the year)

Particulars	Nos.
8% Convertible Debentures of Rs. 100 each	50,000
Equity Shares to be issued on conversion	55,000

The Rate of Income Tax: 30%.

You are required to **calculate Basic and Diluted Earnings Per Share (EPS).**