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

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. From the following information compute Basic and Diluted Earnings Per Share (EPS) of M/s. XYZ Limited for the year ended 31st March, 2017 :

Net Profit for the year after tax: Rs.75,00,000

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

Convertible Debentures Issued by the Company:

Particulars	**Nos.**
8% Convertible Debentures of Rs. 100 each	1,00,000
Equity Shares to be issued on conversion	1,10,000

Rate of Income Tax: 30%.

D. A Company with a turnover of Rs. 375 crores and an annual advertising budget of Rs. 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of Rs. 37.5 croes from the new product. The company had debited to its Profit and Loss account the total expenditure of Rs. 3 crores incurred on extensive special initial advertisement campaign for the new product. Is the procedure adopted by the Company correct?

QUESTION NO.2 **(10 MARKS X 2 =20 MARKS)**

A. Lingaraj Ltd came up with an issue of 20,00,000 Equity Shares of Rs. 10 each, at par. 5,00,000 Equity Shares were issued to the Promoters and the balance offered to public was underwritten by 3 Underwriters - Parvati, Ganesh and Karthikeya - equally.

Excluding Firm Underwriting of 50,000 Shares each, subscriptions totaled 12,97,000 Shares including Marked Forms, which were as under: Parvati—4,25,000 Shares, Ganesh-4,50,000 Shares, and Karthikeya -3,50,000 Shares.

Each of the Underwriters had applied for the number of Shares covered by Firm Underwriting. The amount payable on Application and Allotment were Rs. 2.50 and Rs. 2 respectively. The agreed commission was 5%.

Pass Summary Journal Entries for (1) Allotment of Shares to the Underwriters, (2) Commission due to each of them, and (3) Net Cash Paid and/or Received. (Unmarked Application is to be credited to the Underwriters equally.)

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 –

Capital Funds:	**(Figures in Rs. lakhs)**
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
Assets:	
Cash Balance with RBI	4,80
Balances with other Bank	12,50
Claims on Banks	28,50
Other Investments	782,50
Loans and Advances:	
(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:

Liabilities	**H Ltd.**	**S Ltd.**
	Rs. in lakhs	**Rs. in lakhs**
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	-
	21,387	**9,208**
Assets	**H Ltd.**	**S Ltd.**
	Rs. in lakhs	**Rs. in lakhs**
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	-
	21,387	**9,208**

The following information is also provided to you:

(a) 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.

(b) 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.

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

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
			Motor Vehicles	Nil	51

10% Pref. Shares of Rs. 10 each, fully	1,200	Nil	Stock	2,370	444
paid up	600	Nil	Sundry Debtors	1,044	237
Capital Reserve	2,100	Nil	Cash at Bank	1,542	240
General Reserve	780	Nil	Preliminary Expenses	Nil	33
Profit and Loss Account			Discount on Issue of	Nil	6
8% Redeemable Debentures of Rs.	Nil	300	Debentures		
1,000 each	2,421	369			
Trade Creditors	870	93			
Provisions					
Total	**11,571**	**1,662**	**Total**	**11,571**	**1,662**

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 Mahima Ltd'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 Nithya Ltd'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.

<u>You are required to -</u>

(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. Kalyan General Insurance Company submits the following information for the year ended 31st March 2018 - **(10 MARKS)**

Particulars	Direct Business (Rs.)	Re-Insurance (Rs.)
Premium Received	65,75,000	9,50,000
Premium Paid	-	4,75,000
Claim Paid during the year	42,50,000	5,00,000
Claim Payable1st April 2017	6,25,000	87,000
31st March 2018	7,18,000	60,000
Claims Received	-	3,25,000
Claims Receivable 1st April 2017	-	65,000
31st March 2018	-	1,10,000
Expenses of Management	2,30,000	
Commission:		
On Insurance Accepted	1,50,000	11,000
On Insurance Ceded		14,000

The following additional information is also available:

- Expenses of Management include Rs. 35,000 Surveyor's Fee and Rs. 45,000 Legal Expenses for settlement of Claims.
- Reserve for Unexpired Risk is to be maintained at 50%. The balance of Reserve for Unexpired Risk as on 01-04-2017 was Rs. 24,50,000.

You are required to prepare the Revenue Account for the year ended 31st March 2018.

B. The summarized Balance Sheet of Full Stop Limited as on 31st March 2017, being the date of voluntary winding up is as under:

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Share capital:		Land & building	5,20,000
5,000, 10% Cumulative		Plant & machinery	7,80,000
Preference shares of Rs. 100		Inventory in trade	3,25,000
each fully paid up	5,00,000	Book debts	10,25,000
Equity share capital:		Profit & loss account	5,50,000
5,000 Equity shares of Rs. 100			
each Rs. 60 per share called and paid up	3,00,000		
5,000 Equity shares of Rs. 100			

each Rs. 50 per share called up and paid up	2,50,000		
Securities premium	7,50,000		
10% Debentures	2,10,000		
Preferential creditors	1,05,000		
Bank overdraft	4,85,000		
Trade creditors	6,00,000		
	32,00,000		**32,00,000**

Preference dividend is in arrears for three years. By 31-03-2017, the assets realized were as follows:

	Rs.
Land & building	6,20,000
Inventory in trade	3,10,000
Plant & machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are Rs. 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is Rs. 67,000. Assuming that the final payments were made on 31-03-2017, prepare the Liquidator's Statement of Account.

(5 MARKS)

C. On 1.4.2016, a mutual fund scheme had 18 lakh units of face value of Rs. 10 each was outstanding. The scheme earned Rs. 162 lakhs in 2016-17, out of which Rs. 90lakhs was earned in the first half of the year. On 30.9.2016, 2 lakh units were soldat a "NAV" of Rs. 70.

Pass Journal entries for sale of units and distribution of dividend at the end of 2016-17.

(5 MARKS)

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

ATTEMPT ANY FOUR OF THE FOLLOWING:

A. Given - (a) Future Maintainable Profit before Interest = Rs. 125 Lakhs, (b) Normal Rate of Return on Long Term Funds is 20% and on Equity Funds is 25%, (c) Long Term Funds of the Company is Rs. 320 Lakhs of which Equity Funds is Rs. 210 Lakhs, (d) Interest on Loan Fund is 18%. Find out leverage effect on Goodwill if tax rate = 30%

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

Equity & Liabilities	**Rs.**	**Assets**	**Rs.**
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		
General Reserve	2,50,000	Plant and Machinery	15,00,000
Profit & Loss Account Surplus	1,50,000	(b) Non Current Investments	2,00,000
2. Non Current Liabilities :		2. Current Assets	

Long Term Borrowings :			
10% Debentures (Secured by floating charge on all assets)	20,00,000	(a) Trade Receivables	5,50,000
Unsecured Loans	8,00,000	(b) Inventories	1,80,000
3. Current Liabilities & Provisions : Trade Payables	1,20,000	(c) Cash & Cash Equivalents	40,000
Total	**46,20,000**	**Total**	**46,20,000**

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.

<u>Pass necessary Journal Entries for the above transactions.</u>

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

Particulars	**Rs. In Lakhs**
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?

E. Explain, in brief, the investment valuation norms for traded securities in case of mutual funds as per SEBI (Mutual fund) Regulations.