CA INTERMEDIATE N'19

SUBJECT- ADVANCED ACCOUNTS

Test Code – PIN 5064 M

(Date :)

(Marks - 100)

QUESTION NO.1 is compulsory and attempt any four out of remaining five questions.

QUESTION NO.1 **(5 MARKS X 4 =20 MARKS)**

A. 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. 40,000 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, year2, 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.

B. M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of copyrights. The competitor has filed a suit in the court of law seeking damages of Rs. 200 lakhs.

   The Directors are of the view that the claim can be successfully resisted by the Company. How would the matter be dealt in the annual accounts of the Company in the light of AS 29? **You are required to explain in brief giving reasons for your answer**.

C. Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2018 and is likely to be completed by the next financial year. The contract is for a fixed price of Rs. 12 crores with an escalation clause. You are given the following information for the year ended 31.03.2018 :

   Cost incurred upto 31.03.2018 Rs. 4 crores

   Cost estimated to complete the contract Rs. 6 crores

   Escalation in cost by 5% and accordingly the contract price is increased by 5%.

   You are required to ascertain the state of completion and compute the amount of revenue and profit to be recognized for the year as per AS – 7.

D. Give four examples of activities that do not necessarily satisfy criterion (a) of paragraph 3 of AS 24, but that might do so in combination with other circumstances.

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

A. M/s. Abhi Ltd. issued 2,00,000 shares of Rs. 10 each at a premium of Rs. 20. The entire issue was underwritten as follows :

Amit 0 1,20,000 shars (Firm underwriting 10,000 shares)

Sumit – 50,000 shares (Firm underwriting 6,000 shares)

Lalit – 30,000 shares (Firm underwriting 4,000 shares)

Unmarked applications received by the company (excluding firm underwriting) were 25,000 shares.

The marked applications (excluding firm underwriting) were as follows :

Amit – 80,000 shares

Sumit – 35,000 shares

Lalit – 24,800 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters. **<u>You are required to :</u>**

(i) Calculate the liability of each underwriter (number of shares);

(ii) Compute the amounts payable to or due from underwriters; and

(iii) Prepare Journal Entries in the books of the company relating to underwriting.

B. Following is the summarized Balance Sheet of Complicated Ltd as on 3V1 March:

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Shares of Rs. 10 each fully Paid Up	12,50,000	Fixed Assets	46,50,000
Bonus Shares	1,00,000	Current Assets	40,00,000
Share Option Outstanding Account	4,00,000		
Revenue Reserve	15,00,000		
Securities Premium	2,50,000		
Profit & Loss Account	1,25,000		
Capital Reserve	1,00,000		
Revaluation Reserve	1,00,000		
Unpaid Dividends	1,00,000		
12% Debentures (Secured)	18,75,000		
Advance from Related Parties (Unsecured)	10,00,000		
Current Maturities of Long Term Borrowings	16,50,000		
Application Money Received for Allotment Due for Refund	2,00,000		
Total	**86,50,000**	**Total**	**86,50,000**

The Company wants to buy back 25,000 Equity Shares of Rs. 10 each, on 1st April, at Rs. 20 per Share. Buy Back of Shares is duly authorized by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of Shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets. Comment with your calculations, whether Buy Back of Shares by the Company is within the provisions of the Companies Act, 2013. If yes, **pass necessary Journal Entries towards buy back of Shares and prepare the Balance Sheet after buy back of Shares**.

QUESTION NO.3 **(10 MARKS X 2 = 20 MARKS)**

A. In a liquidation which commenced on 11th November, 2017 certain creditors could not receive payments out of the realization of assets and out of the contributions from "A" list contributories.

The following are the details of certain transfer, which took place in 2016 and 2017 :

Share holders	Number of shares transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding (Rs.)
C	2,500	1st September, 2016	5,000
P	1,500	1st January, 2017	9,000
D	2,000	1st April, 2017	12,000
B	700	1st August, 2017	13,500
S	300	15th September, 2017	14,500

All the shares were Rs. 10 each, Rs. 5 paid up.

Ignoring expenses of and remuneration to liquidators show the amount to be realized from various persons listed above.

B. From the following information furnished to you by Bharat Insurance Co. Ltd., you are **required to prepare Journal entries relating to unexpired risk reserve and show in columnar form "Unexpired Risks Reserve Account" for 2017**.

(a) On 1.04.2016, it had reserve for unexpired risks amounting to Rs. 55 crores. It comprised of Rs. 21 crores in respect of marine insurance business, Rs. 28 crores in respect of fire insurance business and Rs. 6 crores in respect of miscellaneous insurance business.

(b) Bharat Insurance Co. Ltd. creates reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

(c) During 2016 -17, the following business was conducted:

	(Rs. in crores)		
	Marine	Fire	Miscellaneous
Premium collected from: (a) Insured in respect of policies issued (Direct Business)	22.0	46.00	13.00
(b) Other insurance companies in respect of risks undertaken:			
Received during the year	11.5	9.2	5.5
Receivable – 01.04.16	7.0	3.0	1.5
Receivable – 31.03.17	4.0	1.0	1.0
Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8.0

QUESTION NO.4

A. On 31.03.2017, Ram Ltd became the Parent of Hari Ltd and Giri Ltd by acquiring 300 Lakhs fully paid Shares in Hari Ltd for Rs. 4,500 Lakhs and 160 Lakh fully paid Shares in Giri Ltd for Rs. 1,440 Lakhs. On that date, Hari Ltd's books showed a balance of Rs. 1,500 Lakhs in General Reserve and credit balance of Rs. 600 Lakhs in Profit and Loss Account. On the same date, Giri Ltd's ledger showed a debit balance of Rs. 240 Lakhs in Profit and Loss Account while its Preliminary Expenses Account showed a balance of Rs.20 lakhs. On 31.03.2018, the Balance Sheet of the three Companies were as follows :

(Rs. Lakhs)

Equity and Liabilities	**Ram**	**Hari**	**Giri**	**Assets**	**Ram**	**Hari**	**Giri**
(1) Shareholders' Funds:				(1) Non-Current Assets:			
(a) Share Capital				(a) Fixed Assets (i) Tangible			
- Fully Paid Equity Shares of Rs. 10	18,000	5,000	2,000	- Machinery	26,000	5,000	1,400
(b) Reserves & Surplus				- Furniture & Fixtures	4,000	1,000	400
(i) General Reserves	22,000	2,100	-	(b) Non-Current Investments			
(ii) P & L Account	6,000	800	500	- 300 Lakh Shares in Hari	4,500	-	-
(2) Non-Current Liabilities:				-160 Lakh Shares in Giri	1,440	-	-
Long Term Borrowings				-2 Lakhs Deb in Giri	195	-	-
(i) 10 Lakh Rs. 100 9% Debentures	-	-	1,000	(c) Non-Current Assets			
(ii) Loan from Hari	-	-	50	- Preliminary Expenses	-	-	10
(3) Current Liabilities:				Current Assets:			
Trade Payables (i) Bills Payable	-	-	100	(a) Inventories	11,000	2,000	1,000
				(b) Trade Receivables			
(ii) Creditors	9,400	1,800	620	(i) Debtors	6,000	900	860
				(ii) Bills Receivable	130	40	-
				(c) Cash & Cash Equivalents	2,135	700	600
				(d) Short Term Loans & Adv.			
				- Loan to Giri Ltd	-	60	-
Total	**55,400**	**9,700**	**4,270**	**Total**	**55,400**	**9,700**	**4,270**

The following points relating to the abovementioned Balance Sheet are to be noted -

1. All the Bills Payable appearing in Giri's B/s were accepted in favour of Hari out of which bill amounting to Rs. 50 Lakhs were endorsed by Hari Ltd in favour of Ram and bills amounting to Rs. 30 Lakhs were got discounted by Hari with the Bank.

2. On 29.03.2018 Giri Ltd remitted Rs. 10 Lakhs by means of a cheque to Hari Ltd to return part of the Loan, Hari Ltd received the Cheque only after 31.03.2018.

3. Stock with Hari Ltd includes Goods purchased from Ram Ltd for Rs. 125 Lakhs. Ram Ltd had invoiced the goods at Cost + 25%.

4. In August 2017, Hari Ltd declared and distributed dividend at 10% for the year ended 31.03.2017. Ram Ltd credited the dividend received to its Profit & Loss Account.

<u>Prepare the Consolidated Balance Sheet of Ram Ltd and its Subsidiaries Hari Ltd and Giri Ltd as at 31.03.2018</u>. **(16 MARKS)**

B. You are required to **compute the value of Goodwill by equity approach** in the following case: **(4 MARKS)**

(i)	Current cost of capital employed	Rs. 10,40,000
(ii)	Profit earned after current cost adjustments	Rs. 1,72,000
(iii)	10% long term loan	Rs. 4,50,000
(iv)	Normal rate of return on equity capital employed	15.6%

QUESTION NO.5

A. From the following facts drawn from the records of Honest Bank for the year ended 31st March 2018, prepare the accounts as mentioned below:

(i) On 1st April 2017, Bills for Collection were Rs. 28,00,000. During 2017-2018, Bills received for collection were Rs. 2,58,00,000. Bills collected were Rs. 1,88,00,000. Bills dishonoured and returned were Rs. 22,00,000.

Prepare Bills for Collection (Assets) Accounts and Bills for Collection (Liability) Accounts.

(ii) On 1st April 2017, Acceptance, Endorsements etc. not yet satisfied amounted to Rs.58,00,000. During the year, Acceptances, Endorsements, Guarantees, etc. were Rs.1,76,00,000. The Bank honoured acceptances of Rs. 1,00,00,000 and a Client paid Rs.40,00,000 against guaranteed liabilities. The Bank paid Rs. 4,00,000 which clients failed to pay.

Prepare "Acceptances, Endorsements and other Obligations Accounts" in the General Ledger.

(iii) A Loan of Rs. 24,00,000 advanced by the Bank on 30th August 2017 @ 10% per annum, whose interest is payable half-yearly. The Loan was outstanding as on 31st March 2018. Nothing was paid either towards Principal or Interest of this loan. The Security for the loan was 40,000 fully paid Shares of Rs. 100 each. The Shares were quoted on the Stock Exchange on 30th September 2017 at Rs. 90 per Share. Due to fluctuations, the price fell to Rs. 50 per Share in January 2018. On 31st March 2018 the Share Price quoted on the Stock Exchange was Rs. 96 per Share.

State giving reasons, whether the Loan would be classified as Secured or Unsecured in the Balance Sheet of the Company as on 31st March 2018.

(iv) The following balances were taken from the Trial Balance as on 31st March 2018.

	Dr. (Rs.)	Cr.(Rs.)
Interest & Discounts		3,92,00,000
Rebate for Bill Discounted		80,000
Bills Discounted & Purchased	16,00,000	

Proportionate discounts not yet earned for Bills to mature in 2017-2018 were Rs. 56,000.
<u>Prepare the following Accounts</u>: **(8 MARKS)**

(a) Rebate on Bills Discounted Account

(b) Interest and Discount Account

B. The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 20X1:

Liabilities	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	**12,500**

Assets	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. in lakhs)
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	**12,500**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd.(Rs. in lakhs)	V Ltd.(Rs. in lakhs)
Trade payables Bills Payable	120	-
Creditors	1,080	463
	1,200	**463**
Trade receivables		
Trade receivables	2,120	1,020
Bills Receivable	—	80
	2,120	**1,100**

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd.

You are required to : **(12 MARKS)**

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

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

A. ABC Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ending 31st March, 2017 :

Assets Funded	**Interest overdue but recognized in Profit & Loss**		**Net book value of Assets outstanding**
	Paid Overdue	**Interest (Rs. in Lakhs)**	**(Rs. in Lakhs)**
Computers	Upto 12 months	960.00	40,812.00
Televisions	For 20 months	205.00	4,950.00
Washing Machines	For 32 months	104.20	2,530.00
Refrigerators	For 45 months	53.50	1328.00
Air – conditioners	For 52 months	13.85	305.00

You are required to calculate the amount of provision to be made.

B. Preeti has invested in three mutual funds. From the details given below, **find out effective yield on per annum basis** to Preeti in respect of each of the schemes upto 31st March, 2017 :

Mutual Fund	X	Y	Z
Date of Investment	1.12.2016	01.01.2017	01.03.2017
Amount of Investment (Rs.)	2,50,000	3,00,000	1,50,000
NAV at the date of investment (Rs.)	10.00	10.50	10.00
Dividend received upto 31st March, 2017 (Rs.)	4,500	5,700	Nil
NAV as at 31st March, 2017 (Rs.)	10.10	10.40	9.80

C. 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.

D. How will a company classify its investment in preference shares, which are convertible into equity shares within one year from the balance sheet date? Will it classify the investment as a current asset or a non-current asset? Explain.