CA INTERMEDIATE

Test Code – JKN_ADV_12
(Date :17/09/2020)

(Marks -100)

Question No.**1** is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** 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) **(5 Marks)**

From the following information given by Sampark Ltd., Calculate Basic EPS and Diluted EPS as per AS 20 :

	Rs.
Net Profit for the current year	2,50,00,000
No. of Equity Shares Outstanding	50,00,000
No. of 12% convertible debentures of Rs.100 each	50,000
Each debenture is convertible into 8 Equity Shares	
Interest expense for the current year	6,00,000
Tax saving relating to interest expense (30%)	1,80,000

QUESTION 1(B) **(5 Marks)**

The financial statements of PQ Ltd. for the year 2017-18 approved by the Board of Directors on 15th July, 2018. The following information was provided :

(i) A suit against the company's advertisement was filed by a party on 20th April, 2018, claiming damages of Rs. 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2018. But the financial resources were arranged in April, 2018 and amount invested was Rs. 50 lakhs.

(iii) Theft of cash of Rs. 5 lakhs by the cashier on 31st March, 2018 but was detected on 16th July, 2018.

(iv) Company sent a proposal to sell an immovable property for Rs. 40 lakhs in March, 2018. The book value of the property was Rs. 30 lakhs on 31st March, 2018. However, the deed was registered on 15th April, 2018.

(v) A, major fire has damaged the assets in a factory on 5th April, 2018. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date.

QUESTION 1(C) **(5 Marks)**

X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for Rs. 490 lakhs. The agreement lays down values for each of the four outlets (Rs. 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. You are required to examine and comment whether X Ltd., will treat it as a single contract or four separate contracts.

QUESTION 1(D) **(5 Marks)**

A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost Rs. 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate.

You are required to compute the following:

(i) Annual Lease Rent

(ii) Lease Rent income to be recognized in each operating year

QUESTION 2(A) **(15 Marks)**

The summarized Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2020 are given below:

Rs. in Lakhs

Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450

The following information is also given:

(i) A Ltd sold goods of Rs. 180 Lakhs to B Ltd at cost plus 25% (1/6 of such goods were still in inventory of B Ltd at the end of the year).

(ii) Administrative expenses of B Ltd include Rs. 8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include Rs.15 Lakhs paid to B Ltd as commission.

(iv) A Ltd. holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2018-19 is Rs.1,500 Lakhs.

Prepare a consolidated Profit and Loss Account of A Ltd. with its subsidiary B Ltd. for the year ended 31st March, 2020.

QUESTION 2(B) (5 Marks)

A 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. 25,00,000 against which payment was made as follows:

Liquidation expenses	Rs.	25,000
Secured Creditors	Rs.	10,00,000
Preferential Creditors	Rs.	75,000

The amount due to Unsecured Creditors was Rs. 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

QUESTION 3(A) (10 Marks)

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In Rs.
Share Capital	
Equity Shares of Rs. 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	15,50,000
	93,00,000
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	34,50,000
	93,00,000

Super Limited wants to buy back 35,000 equity shares of Rs. 10 each fully paid up on 1st April, 2018 at Rs. 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have 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 as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

QUESTION 3(B) **(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	5,00,000	3,00,000
Total	31,00,000	18,00,000
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	2,20,000	80,000
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	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	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:

(i) VT Ltd. will issue 16 Equity Shares of Rs. 10 each at par against 12 Shares of MG Ltd.

(ii) 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.

(iii) 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%.

(iv) Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) 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 4(A) (15 Marks)

P, Q and R are partners sharing profit and losses in the ratio 2:2:1. The partners decided to dissolve the partnership on 31st March, 2020 when their Balance Sheet was as under:

Liabilities	Amount	Assets		Amount
Partners' Capital Accounts:		Land & Building		90,000
P	40,000	Plant & Machinery		30,000
Q	40,000	Furniture		17,000
General Reserve	33,000	Investments		10,000
R's Loan A/c	10,000	Book Debts	40,000	
Loan from D	80,000	Less: Provision for bad debts	(4,000)	36,000
Trade Creditors	20,000	Stock		24,000
Bills Payable	8,000	Bank		9,000
Outstanding Salary	5,000			
		R's Capital Account		20,000
Total	2,36,000	Total		2,36,000

The following information is given to you:

(i) Realisation expenses amounted to Rs. 12,000 out of which Rs. 2,000 was borne by P.

(ii) A creditor agreed to takeover furniture of book value Rs. 8,000 at Rs. 7,200. The rest of the creditors were paid off at a discount of 6.25%.

(iii) The other assets realized as follows:

Furniture	-	Remaining taken over by R at 90% of book value
Stock	-	Realised 120% of book value
Book Debts	-	Rs. 8,000 of debts proved bad, remaining were fully realized
Land & Building	-	Realised Rs. 1,10,000
Investments	-	Taken over by P at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and Rs. 5,000 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st March, 2020, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners' Capital Accounts in columnar form in the books of Partnership firm.

QUESTION 4(B) **(5 Marks)**

On 1st April, 2018, XYZ Ltd., offered 150 shares to each of its 750 employees at Rs. 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in period on transfer for three years from the grant date. The market price of shares of the company on the grant date is Rs. 72 per share. Due to post- vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 67 per share.

On 31st March, 2019, 600 employees accepted the offer and paid Rs. 60 per share purchased. Nominal value of each share is Rs. 10.
You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

QUESTION 5(A) **(10 Marks)**

From the following information, prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2020. Also give necessary schedules.

Particulars	Figures in '000
Total Interest earned on term loans	2,550
Interest earned on term loans classified as NPA	731
Interest received on term loans classified as NPA	238
Total Interest earned on cash credits and overdrafts	5,663
Interest earned but not received on cash credit and overdrafts treated as NPA	923
Interest on deposits	4,120
Commission	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
Income from Investments	2,174
Payments to and provision for employees	2,745
Rent, Taxes and Lighting	385
Printing and Stationery	62
Director's fees, allowances and expenses	313
Repairs and Maintenance	56
Depreciation on Bank's property	99
Insurance	43

Other Information:

Make necessary provision on Risk Assets:

Particulars	Figures in '000
Standard	4,700
Sub-Standard (fully secured)	1,900
Doubtful Assets not covered by security	400
Doubtful Assets covered by security for 1 year	40
Loss Assets	300

QUESTION 5(B) (10 Marks)

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(Rs.in '000)

	Amount
Liabilities	
Equity Shares of Rs. 10 each	35,000
8%, Cumulative Preference Shares of Rs. 100 each	17,500
6% Debentures of Rs. 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Fixed Assets	43,750
Investments (Market value Rs. 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put into effect on 31st March, 2018.

(i) Investments are to be brought to their market value.

(ii) The Taxation Liability is settled at Rs. 5,25,000 out of current Assets.

(iii) The balance of Profit and Loss Account to be written off.

(iv) All the existing equity shares are reduced to Rs. 4 each.

(v) All preference shares are reduced to Rs. 60 each.

(vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange them for fresh debentures of Rs. 80 each. Each old debenture is exchanged for one new debenture.

(vii) Balance of Current Assets left after settlement of taxation liability are revalued at Rs.1,57,50,000.

(viii) Fixed Assets are written down to 80%.

(ix) One of the creditors of the Company for Rs. 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs. 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

Answer any **four** of the following:

QUESTION 6(A) (5 Marks)

X Ltd. is a company engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss.

Comment whether the classification of the rent income made by the accountant is correct or not in light of Schedule III to the Companies Act, 2013.

QUESTION 6(B) (5 Marks)

Equity capital is held by L, M, N and O in the proportion of 30:40:20:10. A, B, C and D hold Preference share capital in the proportion of 40:30:10:20. If the paid up Equity Share capital of the company is Rs. 60 lakhs and Preference share capital is Rs. 30 lakhs, find the voting rights of shareholders (in percentage) in case of resolution of winding up of the company.

QUESTION 6(C) (5 Marks)

Sheetal Ltd. has provided the following information for the year ended 31st March, 2019:

Particulars	Amount (Rs.)
Accounting profit	9,00,000
Book profit as per MAT	5,25,000
Profit as per Income Tax Act	95,000
Tax rate	30%
MAT rate	7.5%

You are required to calculate the deferred tax asset/liability as per AS-22 and amount of tax to be debited to the profit and loss account for the year

QUESTION 6(D) (5 Marks)

Explain the criterion of income recognition in the case of Non Banking Financial Companies.

QUESTION 6(E) (5 Marks)

What are the initial disclosure requirements of AS 24 for discontinuing operations?