CA INTERMEDIATE

SUBJECT- Advanced Accounts

Test Code – JKN_ADV_13

(Date :)

(Marks - 100)

QUESTION 1 IS COMPULSORY. ATTEMPT ANY FOUR OUT OF FIVE QUESTIONS.

QUESTION 1(A) **(5 MARKS)**

Sarita Construction Co. obtained a contract for construction of a dam. The following details are available in records of company for the year ended 31st March, 2018 :

	Rs. In Lakhs
Total Contract Price	12,000
Work Certified	6,250
Work not certified	1,250
Estimated further cost to completion	8,750
Progress payment received	5,500
Progress payment to be received	1,500

Applying the provisions of Accounting Standard 7 "Accounting for Construction Contracts"

<u>You are required to compute</u> :

(i) Profit/ Loss for the year ended 31st March, 2018.

(ii) Contract work in progress as at end of financial year 2017 – 18.

(iii) Revenue to be recognized out of the total contract value.

(iv) Amount due from /to customers as at the year end.

QUESTION 1(B) **(5 MARKS)**

A Ltd. has got the license to manufacture particular medicines for 10 years at a license fee of Rs. 200 lakhs. Given below is the pattern of expected production and expected operating cash inflow:

Year	Production in bottles (in lakhs)	Net operating cash flow (Rs. in lakhs)
1	300	900
2	600	1,800
3	650	2,300
4	800	3,200
5	800	3,200
6	800	3,200
7	800	3,200
8	800	3,200
9	800	3,200
10	800	3,200

Net operating cash flow has increased for third year because of better inventory management and handling method. **<u>Suggest the amortization method</u>**.

QUESTION 1(C) **(5 MARKS)**

Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2019:

(i) On 15th January, 2019 garments worth Rs. 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2019.

(ii) Garments worth Rs. 1,95,000 were sold to Shine boutique on 25th March, 2019 but at the request of Shine Boutique, these were delivered on 15th April, 2019.

(iii) On 1st November, 2018 garments worth Rs. 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2018 and no approval or disapproval received for the remaining goods till 31st March, 2019.

You are required to advise the accountant of Fashion Limited, **the amount to be recognised as revenue** in above cases in the context of AS 9.

QUESTION 1(D) **(5 MARKS)**

The Accountant of Sohna Ltd. provides the following information for the year ended 31-03-2019:

Particulars	Rs.
Accounting Profit	7,50,000
Book Profit as per MAT	4,37,500
Profit as per Income Tax Act	90,000
Tax rate	20%
MAT rate	7.50%

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 2(A) **(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 2(B) **(10 MARKS)**

The following are the figures extracted from the books of TOP Bank Limited as on 31.3.2017.

	Rs.
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, exchange and brokerage	3,04,000
Rent received	1,04,000
Profit on sale of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

The following further information is given:

(i) A customer to whom a sum of Rs. 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.

(ii) There were also other debts for which a provision of Rs. 2,10,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3.2016 was Rs. 19,000 and on 31.3.2017 was Rs. 25,000.

(iv) Preliminary expenses are to be fully written off during the year.

(v) Provide Rs. 9,00,000 for Income-tax.

(vi) Profit and Loss account opening balance was Nil as on 31.3.2016.

Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

QUESTION 3(A) **(15 MARKS)**

A and B carrying on business in partnership sharing profits and losses equally, wished to dissolve the firm and sell the business to AB Limited Company on 31.03.2018 when the firm's position was as follows:

Liabilities	(Rs.)	Assets	(Rs.)
A's Capital	7,50,000	Land & Building	5,00,000
B's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with AB Limited Company was as follows:

(i) Land and Building was purchased at 20% more than the book value.

(ii) Furniture and stock were purchased at book value less 15%.

(iii) The Goodwill of the firm was valued at Rs. 2,00,000

(iv) The firm's debtors, cash and creditors were not to be taken over, but the company agreed to collect the book debts of the firm and discharge the creditors of the firm as an agent, for which services the company was to be paid 5% on all collections from the firm's debtors and 3% on cash paid to firm's creditors.

(v) The purchase price was to be discharged by the company in fully paid equity shares of Rs. 10 each at a premium of Rs. 2 per share.

The company collected all the amounts from the debtors. The creditors were paid off less by Rs. 5,000 allowed as discount. The company paid the balance due to the vendors in cash.

<u>Prepare the Realisation A/c, the Capital Accounts of the Partners and the Cash Account</u> in the books of the Partnership firm.

QUESTION 3(B) **(5 MARKS)**

The Accountant of Mobile Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as change in Accounting Policy or not for the year ended 31st March, 2017. You are required to advise him in the following situations in accordance with the provisions of AS – 5.

(i) Provision for doubtful debts was created @ 2% till 31st March, 2016. From the Financial year 2016 – 2017, the rate of provision has been charged to 3%.

(ii) During the year ended 31st March, 2017, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.

(iii) Till the previous year the furniture was depreciated on straight line basis over a period of 5 years. From current year, the useful life of furniture has been changed to 3 years.

(iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of Rs. 20,000 per month. Earlier there was no such scheme of pension in the organization.

(v) During the year ended 31st March, 2017, there was change in cost formula in measuring the cost of inventories.

QUESTION 4(A) **(15 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.

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

QUESTION 4(B) **(5 MARKS)**

JKS Ltd. has its share capital divided into equity shares of Rs. 10 each. On 1.1.2018 it granted 5,000 employee stock options at Rs. 30 per share, when the market price was Rs. 50 per share. The options were to be exercised between 15th March, 2018 and 31st March, 2018. The employees exercised their options for 3,600 shares only and the remaining options lapsed. The company closes its books on 31st March every year. You are required to **prepare journal entries (with narrations)** as would appear in the books of the company up to 31st March, 2018.

QUESTION 5(A) **(15 MARKS)**

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31 -3-2017 and the information supplied, **you are required to prepare** (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000
40,000 8% Cumulative Preference shares Rs.10 each	4,00,000	Goodwill at cost	36,100
		Freehold Land Freehold	1,20,000
Reserves and Surplus		Premises	2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account	(1,28,400)	Investment (marked to market)	64,000
Secured Borrowings			
9% Debentures (Rs.100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Short term loans and Advances	10,000
		Inventories:	
Current liabilities		Raw materials and packing	
Trade payables	1,20,000	materials 60,000	
Tax payable	50,000	Finished goods 16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	11,00,100		11,00,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital ofRs.7 lakhs). Both classes of shares are of Rs.10 each.

(2) The preference shares are to be reduced to Rs. 5 each and equity shares reduced by Rs. 3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were Rs. 10,000.

(6) The debenture holders took over freehold land at Rs.2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500.

(8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

QUESTION 5(B) (5 MARKS)

LK Finance Ltd. is a non – banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 400 lakhs of which installments are overdue on 400 accounts for last two months (amount overdue Rs. 80 lakhs), on 24 accounts for three months (amount overdue Rs. 48 lakhs), on 10 accounts for more than 3 months (amount overdue Rs. 40 lakhs) and on 4 accounts for more than three years (amount over due Rs. 40 lakhs – already identified as sub – standard assets) and one account of Rs. 20 lakhs which has been identified as non – recoverable by the management. Out of 10 accounts overdue for more than 3 months, 6 accounts are already identified as sub – standard (amount Rs. 12 lakhs) for more than fourteen months and other are identified as sub – standard asset for a period of less than fourteen months.
Classify the assets of the company in line with Non – Banking Financial Company – Systemically Important Non – Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

QUESTION 6(A) (10 MARKS)

Dee Limited (a non-listed company) furnishes the following summarized Balance Sheet as at 31st March, 20X1:

	Rs. '000	Rs. '000
Liabilities		
Share capital:		
Authorised capital		30,00
Issued and subscribed capital:		
2,50,000 Equity shares of Rs. 10 each fully paid up	25,00	
2,000, 10% Preference shares of Rs. 100 each	2,00	
(Issued two months back for the purpose of buy back)		27,00
Reserves and surplus:		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	35,00	97,00
Current liabilities and provisions		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ Rs. 50 per share. For this purpose, it sold all of its investment for Rs. 22,00,000.

You are required to **pass necessary journal entries** and **prepare the Balance Sheet after buy back.**

QUESTION 6(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.

<u>You are required to prepare</u> :

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

(2) Statement of consideration payable by VT Ltd.