CA INTERMEDIATE NOV'19

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8405

(Date :)

(Marks -100)

Question No. **1** is compulsory.

Answer any **four** questions from the remaining **five** questions.

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

QUESTION 1 (A) **(5 marks)**

Explain on 'presentation of MAT credit' in the financial statements in brief.

QUESTION 1 (B) **(5 marks)**

A Ltd. sold JCB having WDV of Rs. 20 lakhs to B Ltd. for Rs. 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" **explain the accounting treatment of profit or loss** in the books of A Ltd. If

i. Sale price of Rs. 24 lakhs is equal to fair value.

ii. Fair value is Rs. 20 lakhs and sale price is Rs. 24 lakhs.

iii. Fair value is Rs. 22 lakhs and sale price is Rs. 25 lakhs.

iv. Fair value is Rs. 25 lakhs and sale price is Rs. 18 lakhs.

v. Fair value is Rs. 18 lakhs and sale price is Rs. 19 lakhs.

QUESTION 1 (C) **(5 marks)**

Suvidhi Ltd. offered 50 shares to each of its 1500 employees on 1st April 2017 for Rs. 30. Option would be exercisable within a year it is vested. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company is Rs. 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 38 per share.

On 31st March, 2018,1200 employees accepted the offer and paid Rs. 30 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

QUESTION 1 (D) **(5 marks)**

Ruby Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 10% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2017 interest due from agent (because of delay in payment) amounts to Rs. 5 lakhs. The accountant of Ruby Ltd. booked Rs. 5 lakhs as interest income in the year ended 31st March, 2017.

Examine and discuss the contention of the accountant with reference to AS 9 "Revenue Recognition".

QUESTION 2 (A) **(12 MARKS)**

SMM Ltd. has the following capital structure as on 31st March, 2017:

Rs. in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to **pass necessary Journal Entries.**

QUESTION 2 (B) **(8 MARKS)**

Paper Limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of Rs. 10 each at a premium of 5%. Rs. 2.50 is payable on application (on or before 31- 01-2016) and Rs. 3 on allotment (31-3-2016) including premium.

This issue was underwritten by two underwriters namely White and Black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. Subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being White: 15,60,000; Black; 10,80,000 and Unmarked 2,40,000.

One of the allottees (using forms marked with name of White) for 6000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwriters. The commission due was paid separately.
6,000 shares of one allottee who failed to pay the allotment money were finally forfeited by 30-06-2016 and were re-allotted for payment in cash of Rs. 4 per share. You are required to prepare each underwriter's liability (in shares) in statement form and to **pass necessary journal entries** to record the above events and transactions (including cash).

QUESTION 3 **(20 MARKS)**

The following summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. were prepared as on 31st March, 2017:

	H Ltd. (Rs.)	**S Ltd. (Rs.)**
Equity and Liabilities		
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	3,22,000	1,23,000
Total	22,37,000	5,43,000

	H Ltd. (Rs.)	*S Ltd. (Rs.)*
Assets		
Non-Current Assets		
Fixed Assets		
Machinery	*6,40,000*	*1,80,000*
Furniture	*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	*4,70,000*	*2,35,000*
Cash and Bank	*1,64,000*	*32,000*
Total	*22,37,000*	*5,43,000*

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2016. 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,2016 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. 35,000 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 purchased from S Ltd.
You are required to prepare the Consolidated Balance Sheet as at 31 st March, 2017.

QUESTION 4 (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
Reserves and Surplus		Freehold Land Freehold Premises	1,20,000 2,44,000
Securities Premium Account	10,000	Plant and Equipment	3,20,000
Profit and Loss Account Secured Borrowings	(1,38,400)	Investment (marked to market)	64,000
9% Debentures (Rs.100) 1,20,000		Current Assets	
Accrued Interest 5,400	1,25,400	Inventories:	
Current liabilities Trade payables	1,20,000	Raw materials and packing materials 60,000	
Tax payable	50,000	Finished goods 16,000	76,000
Temporary bank overdraft	2,23,100	Trade receivables	1,20,000
	10,90,100		10,90,100

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

Balance Sheets of X Ltd.

As on 31st March 2014 and 31st March 2015

(Rs. In lakhs)

Liabilities	31.3.14	31.3.15	Assets	31.3.14	31.3.15
Share Capital	18,00	18,00	Fixed assets	24,00	26,00
General Reserve	6,00	6,00	Investments	1,00	2,00
Profit &Loss A/c	6,80	9,40	Inventory	6,00	5,50
12% Debentures	2,00	2,00	Trade receivables	3,00	3,50
18% Term Loan	3,00	3,20	Cash and Bank	4,00	3,40
Cash Credit	1,20	80			
Trade payables	70	60			
Tax Provision	30	40			
	38,00	40,40		38,00	40,40

Non-trade investments were 75% of the total investments. **Find capital employed** as on 31.3.14 and as on 31.3.15 and average capital employed.

QUESTION 5 (A). **(14 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.

You are required to Prepare the Profit and Loss account of TOP Bank Limited for the year ended 31.3.2017.

QUESTION 5 (B). **(6 MARKS)**

From the following particulars of M/s. Tsunami Marine Insurance Limited for the year ending 31st March, 2016, **find out the**

(i) Net Premium earned

(ii) Net Claims incurred

	Direct Business	Re- Insurance
	(Rs.) lakhs	(Rs.) lakhs
PREMIUM:		
Received	4,400	376
Receivable -01.04.2015	220	18
Receivable -31.3.2016	189	16
Paid		305
Payable - 01.04.2015		14
Payable - 31.3.2016		9

CLAIMS:

Paid	3,450	277
Payable - 01.04.2015	45	8
Payable - 31.3.2016	48	6
Received		101
Receivable - 01.04.2015		20
Receivable - 31.3.2016		19

ANSWER ANY 4 OT OF 5 QUESTIONS

QUESTION 6 (A). **(5 MARKS)**

Mutual fund has launched a new scheme "All Purpose Scheme". The Mutual Fund Asset Management Company wishes to Invest 25% of the NAV of the scheme in an unrated debt instrument of a company Zed Ltd., which has been paying above average returns for the past many years. The promoters of the company seek advice in light of the regulations of SEBI. **Will the** position change in case the debt instruments of the company Zed Ltd. are rated.

QUESTION 6 (B). **(5 MARKS)**

Sagar Ltd. has issued convertible bonds for Rs. 65 crores which are due to mature on 30th September, 2018.

While preparing financial statements for the year ending 31st March, 2018, company expects that bond holders will not exercise their option of converting bonds to equity shares. **How** should the company **classify** the convertible bonds as per the requirements of Schedule-Ill to the Companies Act, 2013 as on 31st March, 2018?

Also state, whether classification of convertible Bonds as per Schedule-III to the Companies Act will change if the company expects that convertible bond holders will convert their holdings into equity shares of Sagar Ltd.

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

From the following information given by Sampark Ltd., **Calculate** Basis 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 6 (D). **(5 MARKS)**

XYZ Limited is being would up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes Rs. 5 crores. The company owes following amounts to others:

Dues to workers – Rs. 1,25,00,000

Taxes Payable to Government – Rs. 30,00,000

Unsecured Creditors – Rs. 60,00,000

You are **required to** compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the official liquidator from the secured assets and available for distribution among creditors is only Rs. 4,00,00,000/-

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

A consumer goods producer has changed the product line as follows:

	Dish washing Bar (Per month)	Clothes washing Bar (Per month)
January 2016 - September 2016	2,00,000	2,00,000
October 2016 - December 2016	1,00,000	3,00,000
January 2017 - March 2017	Nil	4,00,000

The company has enforced a gradual enforcement of change in product line on the basis of an overall plan. The Board of Directors has passed a resolution in March 2016 to this effect. The company follows calendar year as its accounting year. You are **required to** advise whether it should it be treated as discontinuing operation as per AS 24?