IPCE (New Syllabus)

Roll No. .... Paper - 5 JUL 2021

Advanced Accounting

Total No. of Questions – 6 Total No. of Printed Pages – 16

Time Allowed – 3 Hours Maximum Marks – 100

EDT

Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Questions No. 1 is compulsory.

Candidates are also required to answer any four questions from remaining five questions.

Working notes should form part of the respective answer.

Marks

1. (a) The following data is provided for M/s. Raj Construction Co. **5**

(i) Contract Price – ₹ 85 Lakhs

(ii) Materials issued – ₹ 21 Lakhs out of which Materials costing ₹ 4 Lakhs is still lying unused at the end of the period.

(iii) Labour Expenses for workers engaged at site – ₹ 16 Lakhs (out of which ₹ 1 Lakh is still unpaid)

(iv) Specific Contract Costs – ₹ 5 Lakhs

Marks

(v) Sub-Contract Costs for work executed – ₹ 7 Lakhs, Advances paid to Sub-Contractors – ₹ 4 Lakhs

(vi) Further Cost estimated to be incurred to complete the contract – ₹ 35 Lakhs

You are required to compute the Percentage of Completion, the Contract Revenue and Cost to be recognized as per AS-7.

(b) Rohini Limited is in the business of manufacture of passenger cars and commercial vehicles. The Company is working on a strategic plan to close the production of passenger cars and to produce only commercial vehicles over the coming 5 years. However no specific plans have been drawn up for sale of neither the division nor its assets. As part of its prospective plan it will reduce the production of passenger cars by 20% annually. It also plans to establish another new factory for the manufacture of commercial vehicles and transfer surplus employees in a phased manner. You are required to comment : 5

(i) If mere gradual phasing out in itself can be considered as a 'discounting operation' within the meaning of AS - 24.

(ii) If the Company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS -24 ?

(iii) Would your answer to the above be different if the Company resolves to sell the assets of the passenger car division in a phased but time bound manner ?

Marks

(c) Surya Limited follows the financial year from April to March. It has provided the following information. **5**

(i) A suit against the Company's Advertisement was filed by a party on 5th April, 2021, claiming damages of ₹ 5 lakhs.

(ii) Company sends a proposal to sell an immovable property for ₹ 45 lakhs in March 2021. The book value of the property is ₹ 30 lakhs as on year end date. However, the Deed was registered on 15th April, 2021.

(iii) The terms and conditions for acquisition of business of another company have been decided by the end of March 2021, but the financial resources were arranged in April 2021. The amount invested was ₹ 50 lakhs.

(iv) Theft of cash amounting to ₹ 4 lakhs was done by the Cashier in the month of March 2021 but was detected on the next day after the Financial Statements have been approved by the Directors.

Keeping in view the provisions of AS-4, you are required to state with reasons whether the above events are to be treated as Contingencies, Adjusting Events or Non-Adjusting Events occurring after Balance Sheet date.

(d) (i) Khushi Limited enter into an agreement with Mr. Happy for running a business for a fixed amount payable to the later every year. The contract states that the day-to-day management of the business will be handled by Mr. Happy, while all financial and operating policy decisions are taken by the Board of Directors of the Company. Mr. Happy does not own any voting power in Khushi Limited. **5**

Marks

(ii) Shri Bhanu a relative of key management personnel received remuneration of ₹ 3,50,000 for his services in the company for the period from 1st April, 2020 to 30th June, 2020. On 1st July, 2020, he left the service.

You are required to suggest how the above transactions will be treated as at the closing date i.e. on 31st March, 2021 for the purposes of AS 18-Related Party Disclosures.

2. (a) A company provides the following 2 possible Capital Structure as on 31st March, 2021: 15

Particulars	Situation 1	Situation 2
Equity Share Capital	30,00,000	30,00,000
(Shares of ₹ 10 each, fully paid up)		
Reserves & Surplus		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

Marks

(b) (i) Explain the meaning of Equity Shares with Differential Rights. Can Preference Shares be also issued with differential rights ? **5**

(ii) In Jugnu Limited A, B, C and D hold equity share capital in the proportion of 30:30:30:10 and M, N, O and P hold preference share capital in proportion of 40:20:30:10.

You are required to calculate their voting rights in case of resolution of winding up of the company, if the paid up Equity Share Capital of the company is ₹ 100 Lakhs and Preference Share Capital is ₹ 50 Lakhs.

3. (a) A Partnership firm C & Co. consists of partners P and Q sharing Profits and Losses in the ratio of 4 : 1. The firm H & Co. consists of Partners Q and R sharing Profits and Losses in the ratio of 3 : 2. On 31st March, 2021, it was decided to amalgamate both the firms and form a new firm CH & Co., wherein P, Q, R would be partners sharing Profits and Losses in the ratio of 6 : 3 : 1. **15**

The summarized Balance Sheets of both the firms as on 31st March, 2021 were as follows :

Liabilities	C & Co. (₹ in 000)	H & Co. (₹ in 000)	Assets	C & Co. (₹ in 000)	H & Co. (₹ in 000)
Capital			Cash in hand/bank	160	120
P	600	—	Debtors	240	320
Q	400	300	Stock	200	80
R	—	200	Vehicles	—	350
Reserve	200	150	Machinery	480	—
Creditors	480	220	Building	600	—
Total	**1,680**	**870**	**Total**	**1,680**	**870**

Marks

The following were the terms of amalgamation:

(i) Goodwill of C & Co. was valued at ₹ 2,80,000 and the Goodwill of H & Co. was valued at ₹ 1,60,000. Goodwill account is not to be opened in the books of the new firm but to be adjusted through the Capital accounts of the partners.

(ii) Building, Machinery and Vehicles are to be taken over at ₹ 8,00,000, ₹ 4,00,000 and ₹ 3,00,000 respectively.

(iii) Provision for doubtful debts at ₹ 20,000 in respect of C & Co. and ₹ 10,000 in respect of H & Co. are to be provided.

You are required to :

(i) Show how the Goodwill value will be adjusted amongst the partners.

(ii) Prepare the Balance Sheet of CH & Co as at 31st March, 2021 by keeping Partner's capital in their profit sharing ratio taking capital of 'Q' as the basis. The excess or deficiency to be kept in the respective Partner's Current Accounts.

(b) Siddharth Auto Financiers Limited is a NBFC providing Finance for purchasing of Auto Rickshaws. The following information is extracted from its books for the year 31st March, 2021: 5

Interest Overdue but recognised in Profit and Loss Account		Net Book Value of Assets Outstanding
Period Overdue	**Interest Amount (₹ In Crore)**	**(₹ In crores)**
Up to 12 Months	750.00	30,000
For 24 Months	200.00	4,000
For 30 Months	200.00	3,750
For 45 Months	250.00	3,000
For 60 Months	500.00	10,000

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

Marks

4. (a) The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under : 15

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹ 100 each)		2,000		400
7% Preference share capital		—		400
Reserves		600		200
6% Debentures		400		400
Trade Payables/Trade Receivables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24		24	
General Expenses	160		120	
Preference share dividend up to 30.09.2020		7	14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		—	
Fixed Assets	2,200		1,580	
Total	**5,027**	**5,027**	**3,450**	**3,450**

Marks

- Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.

- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

(b) Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations : 5

(i) On consolidation of Balance Sheet.

(ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.

(iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs.

Marks

5. (a) The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows : **10**

Particulars	Notes	Black Limited (₹ In 000)	White Limited (₹ In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		**7,680**	**4,620**

Marks

Note No	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital		
	Equity Shares of ₹ 100 each	6,000	3,600
	Reserves and Surplus		
2.	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

- Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate deprecation @ 10% p.a. on Property Plant and Equipment.
- Both the companies have declared and paid 10% dividend within this 3 months' period.
- Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.
- Purchase consideration is to be satisfied by Black Limited by issuing shares at par.

Marks

Ignore income-tax.

You are required to :

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

(b) The following are the figures extracted from the books of New Bank Limited as on 31.03.2021. **10**

	Figure in ₹
Interest and Discount received	48,11,200
Interest paid on Deposits	22,95,920
Salaries and allowances	8,40,510
Directors fees and allowances	45,000
Issued and subscribed capital	16,00,000
Commission, Exchange and Brokerage received	1,45,000
Postage and Telegrams	60,000
Statutory Reserve Fund	8,00,000
Interest on cash credit	2,65,000
Profit on sale of Investments	1,15,800
Depreciation on Bank's Property	40,000
Interest on Overdraft	1,20,000
Rent Received	65,000
Legal Expenses	21,000
Auditors Fees	5,000
Statutory Expenses	38,000

Marks

The following information is also given :

(i) A customer to whom a sum of ₹ 5 Lakhs was advanced has become insolvent and it is expected that only 50% can be recovered from his estate.

(ii) Make necessary provisions on Risk Assets :

Standard (excluding above ₹ 5,00,00)	10,00,000
Sub - Standard (fully secured)	8,20,000
Doubtful assets covered by security for 1 year	40,000
Loss assets	1,00,000

(iii) Provide ₹ 6,50,000 for Income Tax.

(iv) The directors desire to declare 10% dividend.

(v) 25% of profit is to be transferred to Reserve fund.

(vi) Rebate on Bills discounted on 31.03.2020 was ₹ 20,000 and ₹ 15,000 on 31.03.2021.

You are required to prepare Profit & Loss A/c of New Bank Limited for the year ended 31.03.2021.

Marks

6. Answer any **four** of the following : 4×5 = 20

(a) The following particulars are stated in the Balance Sheet of Deep Limited as on 31st March, 2020 :

	(₹ In Lakhs)
Deferred Tax Liability (Cr.)	28.00
Deferred Tax Assets (Dr.)	14.00

The following transactions were reported during the year 2020-2021 :

(i) Depreciation as per books was ₹ 70 Lakhs whereas Depreciation for Tax purposes was ₹ 42 Lakhs. There were no additions to Fixed Assets during the year.

(ii) Expenses disallowed in 2019-20 and allowed for tax purposes in 2020-21 were ₹ 14 Lakhs.

(iii) Share issue expenses allowed under section 35(D) of the Income Tax Act, 1961 for the year 2020-21 (1/10th of ₹ 70.00 lakhs incurred in 2019-20)

(iv) Repairs to Plant and Machinery were made during the year for ₹ 140.00 Lakhs and was spread over the period 2020-21 and 2021-22 equally in the books. However, the entire expenditure was allowed for income-tax purposes in the year 2020-21.

Tax Rate to be taken at 40%.

You are required to show the impact of above items on Deferred Tax Assets and Deferred Tax Liability as on 31st March, 2021.

Marks

(b) The different categories of shareholders of Earth Limited, who went into liquidation on 1st April, 2021 are as follows :

(i) 32,000 Equity shares of ₹ 100 each, ₹ 80 paid up

(ii) 48,000 Equity shares of ₹ 100 each, ₹ 35 paid up

(iii) 12,80,000 Equity shares of ₹ 10 each, ₹ 7 paid up

You are required to distribute the surplus money among different categories of shareholders, if the surplus available with Liquidator after discharging all the liabilities is ₹ 32,00,000 :

(c) A Limited sells goods with unlimited right of return to its customers. The following pattern has been observed in the Return of Sales :

Time frame of Return from date of purchase	% of Cumulative Sales
Between 0-1 month	6%
Between 1-2 months	7%
Between 2-3 months	8%

The Company has made Sales of ₹ 36 Lakhs in the month of January, ₹ 48 Lakhs in the month of February and of ₹ 60 Lakhs in the month of March. The Total Sales for the Financial Year have been ₹ 400 Lakhs and the Cost of Sales was ₹ 320 Lakhs. You are required to determine the amount of Provision to be made and Revenue to be recognized as on 31st March.

Marks

(d) At the beginning of the year 1, Harmony Limited grants 600 options to each of its 1000 employees. The contractual life of option granted is 6 yrs.

Other relevant information is as follows :

Vesting Period	3 years
Exercise period	3 years
Expected Life	5 years
Exercise Price	₹ 100
Market Price	₹ 100
Expected Forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2 and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognized at the end of all the three years assuming that expected forfeiture rate does not change during the vesting period when the Intrinsic value of the options at the grant date is ₹ 7 per options.

Marks

(e) Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 750,000 shares of ₹ 10 each, the following :

– New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.

– Fully paid ₹ 10 6% Preference Shares to the extent of 2/5th of the above new equity shares.

– 7% Debentures of ₹ 250,000.

(ii) Goodwill which stood at ₹ 270,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.
