NOV 2019

Roll No. ....

Total No. of Questions – 6 | **IPCE (New Syllabus)** | Total No. of Printed Pages – 20

Paper - 5

Time Allowed – 3 Hours | **Advanced Accounting** | Maximum Marks – 100

MKU

Answers to questions are to be given only in English except in the 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.

Question No. **1** is compulsory.

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

Wherever appropriate, suitable assumption/s should be made by the candidate.

Working notes should form part of the respective answer.

1. (a) A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period. **5**

Less than 1 year : 2% provision

More than 1 year : 3% provision

The company has raised invoices as under :

Invoice Date	**Amount (₹)**
11th Feb, 2017	60,000
25th Dec, 2017	40,000
04th Oct, 2018	1,35,000

Calculate the provision to be made for warranty under **AS-29** as at 31st March, 2018 and 31st March, 2019. Also compute amount to be debited to P & L account for the year ended 31st March, 2019.

(b) As per provision of **AS-26**, how would you deal to the following situations : **5**

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor defending the patent of a product is treated as a capital expenditure.

(2) During the year 2018-19, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer product which was marketed in the same accounting year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

Marks

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9. 5

(1) Trade discount and volume rebate received.

(2) Where goods are sold to distributor or others for resale.

(3) Where seller concurrently agrees to repurchase the same goods at a later date.

(4) Insurance agency commission for rendering services.

(5) On 11-03-2019 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request cloths were delivered on 12-04-2019.

(d) Following information is supplied by K Ltd. 5

Number of shares outstanding prior to right issue – 2,50,000 shares.

Right issue – two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price – ₹ 98

Last date of exercising rights – 30-06-2018.

Fair value of one equity share immediately prior to exercise of right on 30-06-2018 is ₹ 102.

Net Profit to equity shareholders :

2017-2018 – ₹ 50,00,000

2018-2019 – ₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earning per Share.

Marks

2. (a) X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018. 15

Liabilities	(in ₹)	(in ₹)
Share Capital		
Equity Share Capital of ₹ 20 each fully paid up	50,00,000	
10,000, 10% Preference Share of ₹ 100 each fully paid up,	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit and Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total :		1,21,50,000

Assets		
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total :		**1,21,50,000**

The shareholders adopted the resolution on the date of the above mentioned Balance Sheet to :

(1) Buy back 25% of the paid up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is ₹ 30 per share.

(2) To finance the buy back of share company;

(a) Issue 3000, 14% debenture of ₹ 100 each at a premium of 20%.

(b) Issue 2500, 10% preference share of ₹ 100 each.

(3) Sell investment worth ₹ 1,00,000 for ₹ 1,50,000.

Marks

(4) Maintain a balance of ₹ 2,00,000 in Revenue Reserve.

(5) Later the company issue three fully paid up equity share of ₹ 20 each by way of bonus share for every 15 equity share held by the equity shareholder.

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

(b) On 1st April, 2018, XYZ Ltd., offered 150 shares to each of its 750 employees at ₹ 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 ₹ 72 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 67 per share. 5

On 31st March, 2019, 600 employees accepted the offer and paid ₹ 60 per share purchased. Nominal value of each share is ₹ 10.

You are required to record the issue of shares in the books of the XYZ Ltd., under the aforesaid plan.

Marks

3. (a) Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2019. 15

Particulars	Amount (₹)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total :	**21,42,500**
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total :	**21,42,500**

(Note : Preference shares dividend is in arrear for last five years).

Marks

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows :

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied :

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital as reduced is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(b) A liquidator is entitled to receive remuneration at 5% of the assets realised and 8% of the amount distributed among the unsecured creditors. The assets realised ₹ 13,75,000. Payment was made from realised amount as follows : 5

	₹
Liquidation expenses	13,000
Preferential creditors (treated as unsecured creditors)	88,500
Secured creditors	1,00,000

You are required to calculate remuneration payable to the liquidator.

Marks

4. (a) From the following information, you are required to prepare Profit and Loss Account of Simple Bank for the year ended as on 31st March, 2019 : 10

2017-18 (₹ in '000)	Item	2018-19 (₹ in '000)
71,35	Interest and Discount	1,02,25
5,70	Income from investment	5,60
7,75	Interest on Balances with RBI	8,85
36,10	Commission, Exchange and Brokerage	35,60
60	Profit on sale of investments	6,10
30,60	Interest on Deposits	41,10
6,35	Interest to RBI	7,35
36,35	Payment to and provision for employees	42,75
7,90	Rent, taxes and lighting	8,95
7,35	Printing and Stationery	10,60
5,60	Advertising and publicity	4,90
4,90	Depreciation	4,90

Marks

7,40	Director's fees	10,60
5,50	Auditor's fees	5,50
2,50	Law Charges	7,60
2,40	Postage, telegrams and telephones	3,10
2,10	Insurance	2,60
2,85	Repair and maintenance	3,30

Other Information :

(i) The following items are already adjusted with Interest and Discount (Cr.)

Tax Provision (₹ '000)	7,40
Provision for Doubtful Debts (₹ '000)	4,60
Loss on sale of investments (₹ '000)	60
Rebate on Bills discounted (₹ '000)	2,75

(ii) Appropriations :

25% of profit is transferred to Statutory Reserves.

5% of profit is transferred to Revenue Reserve.

You are required to give necessary Schedules also.

Marks

(b) The investment portfolio of a mutual fund scheme includes 4,000 shares of P Ltd. and 3,200 shares of Q Ltd. acquired on 31-12-2017. The cost of P Ltd.'s share is ₹ 50 and Q Ltd.'s share is ₹ 75. The market value of these shares at the end of 2017-18 were ₹ 47 and ₹ 80 respectively. On 30th June, 2018 shares of both companies were disposed off realising : 5

P Ltd's share at ₹ 40 and

Q Ltd.'s share at ₹ 82

Show important accounting entries in the books of the fund for the accounting years 2017-18 and 2018-19.

(c) The following information is furnished by ALFA Bank Ltd. 5

	₹ in Lakhs
Margins held against letter of credit	200
Recurring accounts deposits	100
Current accounts deposits	375
Demand deposit	125
Unclaimed deposit	75
Gold deposit	235
Demand liabilities portion of saving bank deposit	1325
Time liabilities portion of saving bank deposit	722

Explain CRR and you are required to calculate the amount of Cash Reserve Ratio (CRR) as per the direction of Reserve Bank of India.

Marks

5. (a) Consider the following summarized Balance Sheets of subsidiary MNT Ltd. **10**

Liabilities	2017-18 Amount in ₹	2018-19 Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	–	1,70,000
Provision for Taxation	2,62,000	4,30,000
	15,88,000	**23,08,000**
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less : Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	–	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	**23,08,000**

 Marks

Other Information :

(1) MNT Ltd. is a subsidiary of LTC Ltd.

(2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2017-2018 and increased by ₹ 12,000 at the end of 2018-2019. (Inventory of 2017-18 has been sold out during the year 2018-19)

(3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.

(4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2017-18 and ₹ 12,500 in 2018-19 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2017-18, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2017-18.

Restate the balance sheet of MNT Ltd. as on 31st March, 2019 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform.

Marks

(b) On the basis of the following information, calculate the value of goodwill of Star Ltd. at 5 years' purchase of super profits, if any, earned by the company in the previous three completed accounting years. 10

Summarised Balance Sheet of Star Ltd. as at 31st March, 2019.

	₹ in Lakhs
Liabilities	
Share Capital	
Issued and subscribed	
3 Crore Equity Shares of ₹ 10 each, fully paid up	3,000
Capital Reserve	200
General Reserve	5,293
Profit & Loss Account	517
Trade Payables	522
Provision for Taxation (net)	68
	9,600

Marks

Assets	
Goodwill	510
Land & Building	1,650
Plant & Machinery	2,715
Furniture & Fixtures	2,062
Patent and Trade Marks	30
Investments	800
Inventory	673
Trade Receivables	546
Cash and Cash equivalents	614
	9,600

The profits before tax of three years are as follows :

Year ended 31st March	**Profit before tax in lakhs of (₹)**	**Weights**
2015-16	1,910	1
2016-17	2,050	3
2017-18	2,950	5

Other information :

(1) Assume that the rate of income tax for all the years is 35%.

(2) In the accounting year 2015-16 the company sold its land at a profit of ₹ 75.2 Lakhs, which is included in the profits of the same year.

(3) In December, 2016 there was a fire occurred in factory due to which the company lost property worth of ₹ 25 lakhs and the loss was not covered under the insurance policy.

(4) In November, 2017 the company earned an extraordinary income of ₹ 48.88 Lakhs due to a special contract.

(5) 40% of total investments were 8% Non-trading investments (Purchased at par on 1st April, 2014).

(6) Company values inventory on FIFO basis. On 31st March, 2018 inventory was under valued by ₹ 6 Lakhs. (Inventory of 2017-18 sold during the year 2018-19)

(7) Future maintainable profits to be ascertained considering weighted average.

(8) The normal rate of return for the industry in which company is engaged is 15%.

(9) Capital employed as on 31st March, 2018 was ₹ 5,820 Lakhs.

(10) In Shareholder's general meeting a resolution was passed to sanction the directors additional remuneration of ₹ 15 lakhs every year beginning from the accounting year 2018-19.

Marks

6. Answer any **four** of the following :

(a) X Ltd. is a group 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. **5**

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

(b) Darshan Ltd. incorporated on 1st January, 2018 issued a prospectus inviting application for 40,000 Equity Shares of ₹ 10 each. The whole issue was fully underwritten by Arun, Babu and Chandran as follows : **5**

Arun	20,000 shares
Babu	12,000 shares
Chandran	8,000 shares

Applications were received for 32,000 shares, of which marked applications were as follows :

Arun	16,000 shares
Babu	5,700 shares
Chandran	8,300 shares

You are required to find out the liabilities of individual underwriters viz. Arun, Babu & Chandran.

Marks

(c) From the following data determine in each case : 5

Minority Interest at the date of acquisition and at the date of consolidation.

Case	Subsidiary Company	% of Share Owned	Cost ₹	Date of Acquisition		Consolidation date	
				01-01-2018		31-12-2018	
				Share Capital ₹	Profit and Loss a/c ₹	Share Capital ₹	Profit and Loss a/c ₹
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

(d) Explain the criterion of income recognition in the case of Non Banking Financial Companies. 5

Marks

(e) Classify the following into either operating lease or finance lease with reason : 5

(1) Economic life of asset is 10 years, lease term is 9 years, but asset is not acquired at the end of lease term.

(2) Lessee has option to purchase the asset at lower than fair value at the end of lease term.

(3) Lease payments should be recognized as an expense in the statement of Profit & Loss of a lessee.

(4) Present Value (PV) of Minimum Lease Payment (MLP) = "X". Fair value of the asset is "Y". And X = Y.

(5) Economic life of the asset is 5 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee.