Roll No. .... MAY 2022

Total No. of Questions – **6** | **IPCE (New Syllabus) Paper - 5 Advanced Accounting** | Total No. of Printed Pages – **16**

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

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FPR

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.

Working notes should form part of the respective answer.

Marks

1. (a) TQ Cycles Ltd. is in the manufacturing of bicycles, a labour intensive manufacturing sector. In April 2022, the Government enhanced the minimum wages payable to workers with retrospective effect from the 1st January, 2022. Due to this legislative change, the additional wages for the period from January 2022 to March 2022 amounted to ₹ 30 lakhs. The management asked the Finance manager to charge ₹ 30 lakhs as prior period item while finalizing financial statements for the year 2022-23. Further, the Finance manager is of the view that this amount being abnormal should be disclosed as extra-ordinary item in the Profit and loss account for the financial year 2021-22. **5**

Discuss with reference to applicable Accounting Standards.

Marks

(b) NAT, a listed entity, as on 1st April, 2021 had the following capital structure : **5**

	₹
10,00,000 Equity Shares having face value of ₹ 1 each	10,00,000
10,00,000 8% Preference Shares having face value of ₹ 10 each	1,00,00,000

During the year 2021-2022, the company had profit after tax of ₹ 90,00,000

On 1st January, 2022, NAT made a bonus issue of one equity share for every 2 equity shares outstanding as at 31st December, 2021.

On 1st January, 2022, NAT issued 2,00,000 equity shares of ₹ 1 each at their full market price of ₹ 7.60 per share.

NAT's shares were trading at ₹ 8.05 per share on 31st March, 2022.

Further it has been provided that the basic earnings per share for the year ended 31st March, 2021 was previously reported at ₹ 62.30.

You are required to :

(i) Calculate the basic earnings per share to be reported in the financial statements of NAT for the year ended 31st March, 2022 including the comparative figure, in accordance with AS-20 Earnings Per Share.

(ii) Explain why the bonus issue of shares and the shares issue at full market price are treated differently in the calculation of the basic earnings per share ?

Marks

(c) Alloy Fabrication Limited is engaged in manufacturing of iron and steel rods. The company is in the process of finalisation of the accounts for the year ended 31st March, 2022 and needs your advice on the following issues in line with the provisions of AS-29 : 5

(i) On 1st April, 2019, the company installed a huge furnace in their plant. The furnace has a lining that needs to be replaced every five years for technical reasons. At the Balance Sheet date 31st March, 2022, the company does not provide any provision for replacement of lining of the furnace.

(ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 50 Lakhs has been received. The company has appointed a lawyer to defend the case for a fee of ₹ 5 Lakhs. 60% of the fees have been paid in advance and rest 40% will be paid after finalisation of the case. There are 70% chances that the penalty may not be levied.

(d) Grace Ltd., a firm of contractors provided the following information in respect of a contract for the year ended on 31st March, 2022 : 5

Particulars	(₹ in '000)
Fixed Contract Price with an escalation clause	35,000
Work Certified	17,500
Work not Certified (includes ₹ 26,25,000 for materials issued, out of which material lying unused at the end of the period is ₹ 1,40,000)	3,815
Estimated further cost to completion	17,325
Progress Payment Received	14,000
Payment to be Received	4,900
Escalation in cost is by 8% and accordingly the contract price is increased by 8%	

P.T.O.

Marks

From the above information, you are required to :

(i) Compute the contract revenue to be recognised,

(ii) Calculate Profit / Loss for the year ended 31st March, 2022 and additional provision for loss to be made, if any, for the year ended 31st March, 2022.

2. The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2022 are as under : 20

	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹ 10 each, fully paid up	30,00,000	24,00,000
Share Premium Account	4,00,000	–
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	–
10% Debentures	20,00,000	–
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	–
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	**43,80,000**

Marks

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into 6 lakhs equity shares of ₹ 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability

(e) Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

Marks

3. (a) White Ltd. acquired 2,250 shares of Black Ltd. on 1st October, 2020. The summarized balance sheets of both the companies as on 31st March, 2021 are given below : 15

	White Ltd. (₹)	Black Ltd. (₹)
(I) Equity and Liabilities		
(1) Shareholder's fund		
Share capital (Equity shares of ₹ 100 each fully paid up)	6,50,000	3,00,000
Reserves and Surplus		
General Reserve	60,000	30,000
Profit and loss account	1,50,000	90,000
(2) Current Liabilities		
Trade payables	1,15,000	75,000
Due to White Ltd.	–	30,000
Total	**9,75,000**	**5,25,000**
(II) Assets :		
Non-current assets		
Property, Plant and Equipment	5,80,000	3,51,000
Investments		
Shares in Black Ltd. (2,250 shares)	2,70,000	–
Current assets		
Inventories	50,000	1,20,000
Due from Black Ltd.	36,000	–
Cash and Cash equivalents	39,000	54,000
Total	**9,75,000**	**5,25,000**

Other information :

(i) During the year, Black Limited fabricated a machine, which is sold to White Ltd. for ₹ 39,000, the transaction being completed on 30th March, 2021.

(ii) Cash in transit from Black Ltd. to White Ltd. was ₹ 6,000 on 31st March, 2021.

(iii) Profits during the year 2020-2021 were earned evenly.

(iv) The balances of Reserves and Profit and Loss account as on 1st April, 2020 were as follows :

	Reserves	Profit and loss a/c
	₹	₹
White Ltd.	30,000	15,000 Profit
Black Ltd.	30,000	10,000 Loss

You are required to prepare consolidated Balance Sheet of the group as on 31st March, 2021 as per the requirement of Schedule III of the Companies Act, 2013.

Marks

(b) (i) Write a short note on Non-performing assets of a banking company. 5

(ii) Dee Bank provides you the following information relating to their two cash credit accounts :

	Account A ₹ In Lakhs	Account B ₹ In Lakhs
Sanctioned limit	4,500	3,200
Drawing power	4,200	2,500
Amount outstanding continuously from 01.01.2021 to 31.03.2021	3,600	2,000
Total Interest debited for the above period	288	315
Total credits for the above period	120	380

State with reason whether the above cash credit accounts are NPA or not ?

Marks

4. (a) Ajay, Vijay and Sanjay have been in partnership for a number of years, sharing profits and losses in the ratio 7 : 7 : 4 as a wholesale stationers running business under the name "AVS Traders". On 31st March, 2021, it was found that some frauds were committed by Sanjay during the year 2020-2021. So, it was decided to dissolve the partnership business on 31st March, 2021 when their Balance sheet stood as under : 15

Balance Sheet as at 31st March, 2021

Liabilities		Amount (₹)	Assets	Amount (₹)
Capital accounts :			Building	1,90,000
Ajay	1,80,000		Inventory	1,30,000
Vijay	1,80,000	3,60,000	Investments	50,000
General Reserve		36,000	Trade Debtors	70,000
Trade Creditors		80,000	Cash & Bank	26,000
Bills payables		30,000	Sanjay's Capital (overdrawn)	40,000
		5,06,000		**5,06,000**

Additional Information :

(i) Following frauds were committed by Sanjay :

(1) Investments costing ₹ 8,000 were sold by Sanjay at ₹ 11,000 and the funds were transferred to his personal account. This sale was omitted from firm's books.

(2) A cheque for ₹ 7,000 received from trade debtors was not recorded in the books and was misappropriated by Sanjay.

Marks

(ii) A trade creditor agreed to take over investments of the book value of ₹ 9,000 at ₹ 13,000. The rest of the trade creditors were paid off at a discount of 10%.

(iii) Other assets were realised as follows :

Inventory	₹1,20,000
Building	110% of book value
Investments	The rest of the investments were sold at a profit of ₹ 7,000
Trade Debtors	The rest of the trade debtors were realised at a discount of 10%

(iv) The Bills payables were settled at a discount of ₹ 500.

(v) The expenses of dissolution amounted to ₹ 8,060.

(vi) It was found out, that realisation from Sanjay's private assets would be ₹ 7,000.

You are required to prepare :

(1) Realisation Account

(2) Cash & Bank Account

(3) Partner's Capital Account

(All workings should form part of your answer)

(b) Explain the nature of a Limited Liability Partnership. Who can be a designated partner in a Limited Liability Partnership and what are their liabilities ? 5

Marks

5. (a) Quick Ltd. has the following capital structure as on 31st March, 2021 : **10**

			₹ In Crores
(1)	Share Capital		462
	(Equity Shares of ₹ 10 each, fully paid)		
(2)	Reserves and Surplus :		
	General Reserve	336	
	Securities Premium Account	126	
	Profit and Loss Account	126	
	Statutory Reserve	180	
	Capital Redemption Reserve	87	
	Plant Revaluation Reserve	33	888
(3)	Loan Funds :		
	Secured	2,200	
	Unsecured	320	2,520

On the recommendations of the Board of Directors, on 16th September, 2021, the shareholders of the company have approved a proposal to buy-back of equity shares. The prevailing market value of the company's share is ₹ 20 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of 50% over market value. The company had sufficient balance in its bank account for the buy-back of shares.

Marks

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,680 Crores or ₹ 2,100 Crores.

Assuming that the entire buy-back is completed by 31st December, 2021, Pass the necessary accounting entries (narrations not required) in the books of the company in each situation.

(b) Deluxe Commercial Bank has the following capital funds and assets : 10

	₹ In Crores
Capital Funds and Assets	
Capital Funds :	
Paid up Equity Share Capital	2,400
Statutory Reserves	480
Securities Premium	480
Capital Reserve (of which ₹ 128 Crores were due to revaluation of assets and balance due to sale of assets)	288
Profit and Loss Account (Dr. Balance)	48

Marks

Assets :	
(i) Cash balance with Reserve Bank of India	192
(ii) Claims on Banks	544
(iii) Other Investments	7,360
Loans and Advances :	
(i) Guaranteed by Government of India and State Governments	1,280
(ii) Bank Staff Advances-fully covered by superannuation benefit	160
Other loans and advances	544
Other Assets :	
(i) Premises, Furniture & Fixtures	12,560
(ii) Intangible Assets	48
Off-Balance Sheet Items :	
Acceptance, Endorsements and Letters of Credit	4,800
Guarantee and other obligations	160

You are required to :

(i) Segregate the capital funds into Tier I and Tier II capitals, and

(ii) Find out the risk-adjusted asset and risk weighted assets ratio.

Marks

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

(a) XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 2022 has been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	**Profit (Loss)** **₹ in lakhs**
A	225
B	25
C	(175)
D	(20)
E	(105)

(b) In a limited company, Equity Share Capital is held by X, Y and Z in the proportion of 30 : 30 : 40. Also A, B and C hold preference share capital in the proportion of 50 : 30 : 20. The company has not paid the dividend to holders of preference share capital for more than 3 years. Given that the paid-up equity share capital of the company is ₹ 1 Crore and that of preference share capital is ₹ 50 Lakh.

Marks

(i) Find out the relative weight in the voting right of equity shareholders and preference shareholders.

(ii) Also the company proposing to issue equity shares with differential voting rights (DVR) to the extent of ₹ 50 lakhs. Assuming the company fulfils other conditions pertaining to the issue of shares with DVR. Can the company issue the shares with DVR ?

(c) What are the disclosures requirements for operating leases by the lessee as per AS-19 ?

(d) The position of Bad Luck Limited on its liquidation on 31st March, 2022 is as under :

Issued and paid up capital :

90,000, 10% Preference Shares of ₹ 100 each, fully paid

90,000 Equity Shares of ₹ 100 each, fully paid up

30,000 Equity Shares of ₹ 50 each, ₹ 40 paid up

10,000 Equity Shares of ₹ 10 each, ₹ 4 paid up

Calls in arrears are ₹ 3,00,000 and calls received in advance ₹ 2,55,000. Preference dividends are in arrears for two years. Amount left with the liquidator after discharging of all liabilities is ₹ 1,25,15,000. Articles of Association of the company provide for payment of preference dividend arrears in priority to return of equity capital.

You are required to prepare the Liquidator's Final Statement of Account.

Marks

(e) On 1st April, 2021, a company offered 100 shares to each of its 5,000 employees at ₹ 50 per share. The employees are given a year to accept the offer. 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 on the grant date is ₹ 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 56 per share and fair value per option worked out to be ₹ 6.

On 31st March, 2022, 4,000 employees accepted the offer and paid ₹ 50 per share purchased. Nominal value of each share is ₹ 10.

You are required to pass journal entries (with narration) as would appear in the books of the company up to 31st March, 2022.