Roll No. .............................. **IPCE (New Syllabus)**

**Paper - 5**

Total No. of Questions – 6 **Advanced Accounting** Total No. of Printed Pages – **15**

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

# GRC

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.

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

Working notes should form part of the respective answer.

**Marks**

1. Answer the following Questions : **4×5 = 20**

(a) Rajendra undertook a contract for ₹ 20,00,000 on an arrangement that 80% of the value of work done as certified by the architect of the contractee, should be paid immediately and that the remaining 20% be retained until the Contract was completed .

In Year 1, the amounts expended were ₹ 8,60,000, the work was certified for ₹ 8,00,000 and 80% of this was paid as agreed. It was estimated that future expenditure to complete the Contract would be ₹ 10,00,000.



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In Year 2, the amounts expended were ₹ 4,75,000. Three-fourths of the Contract was certified as done by December 31st and 80% of this was received accordingly. It was estimated that future expenditure to complete the Contract would be ₹ 4,00,000.

In Year 3, the amounts expended were ₹ 3,10,000 and on June 30th, the whole Contract was completed.

Show how Contract revenue would be recognized in the P & L A/c of Mr. Rajendra each year.

(b) Swift Limited acquired patent rights to manufacture Solar Roof Top Panels at a cost of ₹ 600 lacs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of future cash flows which are estimated as under :

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Cash Flows (₹ in lacs)** | 300 | 300 | 300 | 150 | 150 |

After 3rd year, it was estimated that the patents would have an estimated balance future life of 3 years and Swift Ltd. expected the estimated cash flow after 5th year to be ₹ 75 Lacs. Determine the amortization cost of the patent for each of the above years as per Accounting Standard 26.



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(c) The accountant of Parag Limited has furnished you with the following data related to its Business Divisions :

(₹ in Lacs)

| Division | A | B | C | D | Total |
|---|---|---|---|---|---|
| Segment Revenue | 100 | 300 | 200 | 400 | 1000 |
| Segment Result | 45 | –70 | 80 | –10 | 45 |
| Segment Assets | 39 | 51 | 48 | 12 | 150 |

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17.

(d) From the following details of Aditya Limited for accounting year ended on 31st March, 2020 :

| Particulars | ₹ |
|---|---|
| Accounting profit | 15,00,000 |
| Book profit as per MAT | 7,50,000 |
| Profit as per Income tax Act | 2,50,000 |
| Tax Rate | 20% |
| MAT Rate | 7.5% |

Calculate the deferred tax asset/liability as per AS22 and amount of tax to be debited to the profit and loss account for the year.



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2. (a) H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under : 15

| Particulars | H Ltd. (₹) | S Ltd. (₹) |
|---|---|---|
| **Equities and Liabilities :** | | |
| Equity Share Capital of ₹ 10 each | 20,00,000 | 8,00,000 |
| General Reserve (1st April, 2019) | 9,60,000 | 4,20,000 |
| Profit & Loss Account | 2,28,800 | 3,28,000 |
| Preliminary Expenses (1st April, 2019) | – | – 20,000 |
| Bank Overdraft | 3,00,000 | |
| Bills Payable | – | 52,000 |
| Trade Payabless | 1,66,400 | 80,000 |
| **Total** | **36,55,200** | **16,60,000** |
| **Assets :** | | |
| Land and Building | 7,20,000 | 7,60,000 |
| Plant & Machinery | 9,60,000 | 5,40,000 |
| Investment in Equity Shares of S Ltd. | 12,27,200 | – |
| Inventories | 4,56,000 | 1,68,000 |
| Trade Receivables | 1,76,000 | 1,60,000 |
| Bills Receivable | 59,200 | – |
| Cash in Hand | 56,800 | 32,000 |
| **Total** | **36,55,200** | **16,60,000** |

**Additional Information :**

(1) The Profit & Loss Account of S Ltd. showed a balance of ₹ 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.



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(2) The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

(b) PGL Finance Ltd. is a non-banking financial company. The following information is provided by the company regarding its outstanding amounts, ₹ 600 Lakhs, of which instalments are overdue on 300 accounts for last two months (amount overdue ₹ 150 Lakhs), on 48 accounts for three months (amount overdue ₹ 64 Lakhs), on 20 accounts for more than 30 months (amount overdue ₹ 120 Lakhs) and in 4 accounts for more than three years (amount overdue ₹ 60 Lakhs - already identified as sub-standard asset) and one account of ₹ 40 Lakhs which has been identified as non-recoverable by the management. Out of 20 accounts overdue for more than 30 months, 16 accounts are already identified as sub-standard (amount ₹ 28 Lakhs) for more than fourteen months and others are identified as sub-standard asset for a period of less than fourteen months. 5

Classify the assets of the company in line with Non-Banking Financial Company-Systematically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.



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3. (a) High Ltd. and Low Ltd. were amalgamated on and from 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under : 15

(₹ in Lakhs)

| Liabilities | High Ltd. | Low Ltd. | Assets | High Ltd. | Low Ltd. |
|---|---|---|---|---|---|
| **Share Capital** | | | **Plant, Property and Equipment :** | | |
| Equity Shares of ₹100 each | 1000 | 850 | Land & Building | 670 | 385 |
| 14% Pref Shares of ₹ 100 each | 320 | 175 | Plant & Machinery | 475 | 355 |
| **Reserves & Surplus** | | | Investments | 95 | 80 |
| Revaluation Reserve | 225 | 110 | **Current Assets :** | | |
| General Reserve | 360 | 240 | Stock | 415 | 389 |
| Investment Allowance Reserve | 80 | 40 | Sundry Debtors | 322 | 213 |
| P & L Account | 85 | 82 | Bills Receivables | 35 | – |
| **Non-Current Liabilities** | | | Cash & Bank | 303 | 166 |
| Secured Loans : | | | | | |
| 13% Debentures (₹ 100 each) | 100 | 56 | | | |
| Unsecured Loans (Public Deposits) | 50 | – | | | |
| **Current Liabilities & Provisions** | | | | | |
| Sundry Creditors | 65 | 35 | | | |
| Bills Payable. | 30 | – | | | |
| **TOTAL** | **2315** | **1588** | **TOTAL** | **2315** | **1588** |



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**Other Information :**

(1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)

(3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.

(4) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.



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(b) In a winding up of a company creditors remain unpaid. The following persons had transferred their holdings before winding up. **5**

| Name | Date of Transfer | No of shares transferred | Amt. due to creditors on the transfer (₹) |
|---|---|---|---|
| D | 1st January, 2019 | 1000 | 8,500 |
| E | 15th February, 2019 | 400 | 13,500 |
| H | 15th March, 2019 | 700 | 19,000 |
| J | 31st March, 2019 | 900 | 22,000 |
| K | 5th April, 2019 | 1000 | 31,000 |

The shares were of ₹ 100 each, ₹ 80 being called up and paid up on the date of transfers.

(1) A member G, who holds 200 shares died on 28th Feb., 2019 when the amount due to creditors was ₹ 16000. His shares were transmitted to his Son X.

(2) R was the transferee of shares held by J. R paid ₹ 20 per share as calls in advance immediately on becoming a member.

(3) The liquidation of the Company commenced on 1st February, 2020. When the liquidator made a call on the present and past contributories to pay the amount.

You are required to quantify the maximum liability of the transferors of shares mentioned in the above table.



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4. (a) Mohan and Sohan were carrying business in partnership, sharing profit and losses equally. The Balance Sheet of the firm as on 31st March, 2019 stood as under : 15

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Accounts | | Leasehold Premises | 40,800 |
| – Mohan 1,68,000 | | Plant & Machinery | 1,80,000 |
| – Sohan 1,56,000 | 3,24,000 | Inventories | 72,000 |
| Bank Overdraft | 42,000 | Trade Receivables | 84,000 |
| Trade Payables | 72,000 | Joint Life Policy | 10,800 |
| | | Profit & Loss Account | 31,200 |
| | | Partners' Current Account | |
| | | – Mohan 12,000 | |
| | | – Sohan 7,200 | 19,200 |
| **TOTAL** | **4,38,000** | **TOTAL** | **4,38,000** |

The business was carried on till 30th September, 2019. The partners withdrew the amounts equal to half the amount of profit made during the period of six months ended on 30th September, 2019 equally. The profit was calculated after charging depreciation @ 5% per annum on Leasehold premises and 10% per annum on Plant & Machinery.

In the half year, the amounts of Bank Overdraft and Trade Payables stood reduced by ₹ 18,000 and ₹ 12,000 respectively. On 30th September, 2019, the inventories were valued at ₹ 90,000 and Trade Receivables at ₹ 72,000. The Joint Life Policy had been surrendered for ₹ 10,800 before 30th September, 2019 and all other terms remained the same as at 31st March, 2019.



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On 30th September, 2019, the firm sold off its business to PKR Limited. The value of Goodwill was fixed at ₹ 1,20,000 and the rest of the assets and liabilities were valued on the basis of their book values as at 30th September, 2019. PKR Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

You are requested to prepare the following:

(1) Balance Sheet of the Firm as at 30th September, 2019 ;

(2) Realizastion Account ;

(3) Partners' Capital Account showing the final settlement between them.

(b) Vikas Finance Ltd. is a Non Banking Finance Company. The extracts of its Balance Sheet are as under : 5

| Liabilities | (₹ in '000) | Assets | (₹ in '000) |
|---|---|---|---|
| Paid up Equity Capital | 250 | Leased out Assets | 2,000 |
| Free Reserves | 1,250 | Investments | |
| Loans | 1,000 | – In shares of subsidiaries and Group Companies | 275 |
| Deposits | 1,000 | – In debentures of subsidiaries and Group Companies | 225 |
| | | Cash & Bank Balances | 500 |
| | | Deferred Expenditure | 500 |
| **TOTAL** | **3,500** | **TOTAL** | **3,500** |

You are requested to compute the "Net Owned Funds" of Vikas Finance Ltd. as per Non Banking Finance Company – Systematically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016.



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5. (a) Sun Ltd. grants 100 stock options to each of its 1200 employees on 01.04.2016 for ₹ 30, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is ₹ 60 each. These options will vest at the end of the year 1 if the earning of Sun Ltd. is 16% or it will vest at the end of year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year, if the average earning of 3 years is 10%. 6000 unvested options lapsed on 31.3.2017, 5000 unvested options lapsed on 31.03.2018 and finally 4000 unvested options lapsed on 31.03.2019. **10**

The earnings of Sun Ltd. for the three financial years ended on 31st March, 2017, 2018 and 2019 are 15%, 10% and 6%, respectively.

1000 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.

You are requested to give the necessary journal entries for the above and prepare the statement showing compensation expenses to be recognized at the end of the year.



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(b) Vasu Commercial Bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted assets ratio. 10

| Particulars | ₹ in crores |
|---|---|
| Equity Share Capital | 600.00 |
| Statutory Reserve | 250.00 |
| Capital Reserve (of which ₹ 26 crores were due to revaluation of assets and the balance due to sale of capital assets) | 87.00 |
| Assets: | |
| Cash Balance with RBI | 20.00 |
| Balance with other banks | 28.00 |
| Other investments | 38.00 |
| Loans and advances : | |
| (i) Guaranteed by the Govt. | 18.50 |
| (ii) Others | 6,625.00 |
| Premises, Furniture and fixtures | 108.00 |
| Off- Balance Sheet Items | |
| (i) Guarantee and other obligations | 600.00 |
| (ii) Acceptances, endorsements and letter of credit | 4,200.00 |



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

(a) Under what circumstances an LLP can be wound up by the tribunal ?

(b) Beekey Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 2.50 crores. The company owes following amounts to others :

| | | |
|---|---|---|
| Dues to workers | – | ₹ 62,50,000 |
| Taxes payable to Government | – | ₹ 15,00,000 |
| Unsecured creditors | – | ₹ 30,00,000 |

You are required to compute with 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 ₹ 2,00,00,000.

(c) M/s. Pasa Ltd. is developing a new production process. During the financial year ended 31st March, 2019, the total expenditure incurred on the process was ₹ 80 lakhs. The production process met the criteria for recognition as an intangible asset on 1st November, 2018. Expenditure incurred till this date was ₹ 42 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March, 2020 was ₹ 90 lakhs. As on 31.03.2020, the recoverable amount of know how embodied in the process is estimated to be ₹ 82 lakhs. This includes estimates of future cash outflows and inflows.



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You are required to work out :

(1) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2019 ?

(2) What is the carrying amount of the intangible asset as on 31st March, 2019 ?

(3) What is the expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2020 ?

What is the carrying amount of the intangible asset as on 31st March, 2020 ?

(d) A, B, C and D hold Equity Share Capital in the proportion of 40:30:20:10 and P, Q, R and S hold Preference Share Capital in the proportion of 30:40:20:10 in Alpha Ltd. If the paid up Equity Share Capital of Alpha Ltd. is ₹ 75 lacs and the Preference Share Capital is ₹ 25 lacs, find their voting rights in the case of resolution of winding up of the company.

(e) With reference to AS 29, how would you deal with the following in the Annual Accounts of the company at the Balance Sheet date :

(i) The company operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Eighty five percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and fifteen percent arise through the extraction of oil. At the balance sheet date, rig has been constructed but no oil has been extracted.



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(ii) The Government introduces a number of changes to the taxation laws. As a result of these changes, the company will need to train a large proportion of its accounting and legal workforce in order to ensure continued compliances with tax law regulations. At the balance sheet date, no retraining of staff has taken place.



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