IPCE (New Syllabus)
Paper - 5
Advanced Accounting

MAY 2019

Roll No. ....

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

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

CKV2

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.

Marks

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

(a) (i) AP Ltd., a construction contractor, undertakes the construction of commercial complex for Kay Ltd. AP Ltd. submitted separate proposals for each of 3 units of commercial complex. A single agreement is entered into between the two parties. The agreement lays down the value of each of the 3 units, i.e. ₹ 50 Lakh, ₹ 60 Lakh and ₹ 75 Lakh respectively. Agreement also lays down the completion time for each unit.

Comment, with reference to AS-7, whether AP Ltd., should treat it as a single contract or three separate contracts.

 Marks

(ii) On 1st December, 2017, GR Construction Co. Ltd. undertook a contract to construct a building for ₹ 45 lakhs. On 31st March, 2018, the company found that it had already spent ₹ 32.50 lakhs on the construction. Additional cost of completion is estimated at ₹ 15.10 lakhs. What amount should be charged to revenue in the final accounts for the year ended 31st March, 2018 as per provisions of AS-7 ?

(b) Given below are the following informations of M/s B.S. Ltd.

(i) Goods of ₹ 50,000 were sold on 18-03-2018 but at the request of the buyer these were delivered on 15-04-2018.

(ii) On 13-01-2018 goods of ₹ 1,25,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2018.

(iii) ₹ 1,00,000 worth of goods were sold on approval basis 01-12-2017. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-01-2018 and no approval or disapproval received for the remaining goods till 31-03-2018.

You are required to advise the accountant of M/s B.S. Ltd., with valid reasons, the amount to be recognized as revenue for the year ended 31st March, 2018 in above cases in the context of AS-9.

Marks

(c) Jaya Ltd. took a machine on lease from Deluxe Ltd., the fair value being ₹ 11,50,000. Economic life of the machine as well as lease term is 4 years. At the end of each year, lessee pays ₹ 3,50,000 to lessor. Jaya Ltd. has guaranteed a residual value of ₹ 70,000 on expiry of the lease to Deluxe Ltd., however Deluxe Ltd. estimates that residual value will be only ₹ 25,000. The implicit rate of return is 10% p.a. and present value factors at 10% are : 0.909, 0.826, 0.751 and 0.683 at the end of 1^{st}, 2^{nd}, 3^{rd} and 4^{th} year respectively.

Calculate the value of machinery to be considered by Jaya Ltd. and the value of the lease liability as per AS-19.

(d) Identify the related parties in the following cases as per AS-18

(i) Maya Ltd. holds 61% shares of Sheetal Ltd.

Sheetal Ltd. holds 51% shares of Fair Ltd.

Care Ltd. holds 49% shares of Fair Ltd.

(Give your answer Reporting Entity wise for Maya Ltd., Sheetal Ltd., Care Ltd. and Fair Ltd.)

(ii) Mr. Subhash Kumar is Managing Director of A Ltd. and also holds 72% capital of B Ltd. (B Ltd. is subsidiary of A Ltd.)

Marks

2. (a) Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018. **10**

Liabilities	In ₹
Share Capital	
Equity Shares of ₹ 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	15,50,000
	93,00,000
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	34,50,000
	93,00,000

Super Limited wants to buy back 35,000 equity shares of ₹ 10 each fully paid up on 1st April, 2018 at ₹ 30 per share.

Buy Back of shares is fully authorised by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

Marks

(b) Aarohi Ltd. made a public issue of 11,00,000 equity shares of ₹ 10 each at a premium of ₹ 10, the amounts payable on application were ₹ 4 along with the full amount of premium and ₹ 6 at allotment. Out of the above 1,00,000 equity shares were issued to promoters and the balance was offered to the public which was underwritten by three underwriters Ashish, Alok and Ajay as follows : **10**

Ashish - 4,00,000 shares including firm underwriting 80,000 shares

Alok - 3,00,000 shares including firm underwriting 30,000 shares

Ajay - 3,00,000 shares including firm underwriting 1,10,000 shares

Total subscriptions received by Aarohi Ltd. were 1,50,000 shares (excluding firm underwriting and marked applications)

The marked applications (excluding firm underwriting) were,

Ashish - 97,500 shares,

Alok - 1,95,000 shares and

Ajay - 1,48,500 shares.

Underwriters are entitled to maximum commission permissible by law on the issue price of shares. The underwriting contract provides that benefit of firm underwriting is to be given to individual underwriters.

You are required to :

(i) Determine the liability of each underwriter in number of shares;

(ii) Compute the amounts payable or due from underwriters; and

(iii) Pass Journal Entries in the books of the company relating to underwriting.

Marks

3. (a) The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018: **10**

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	**31,00,000**	**18,00,000**
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	**31,00,000**	**18,00,000**

Details of Trade receivables and trade payables are as under :

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	**4,20,000**
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	**3,00,000**

- Fixed Assets of both the companies are to be revalued at 15% above book value.
- Inventory in Trade and Debtors are taken over 5% lesser than their book value.
- Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms :

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in VT Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium by 12% Debentures in VT Ltd. issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

Marks

(b) BT Ltd. went into Voluntary Liquidation on 31st March, 2018, when their detailed Balance Sheet read as follows: 10

Liabilities	In ₹
Issued & Subscribed Capital	
10,000 12% cumulative preference shares of ₹ 100 each, fully paid	10,00,000
10,000 Equity Shares of ₹ 100 each 75 per share paid up	7,50,000
20,000 Equity Shares of ₹ 100 each 60 per share paid up	12,00,000
Profit & Loss Account	(5,25,000)
12% Debentures (Secured by a floating charge)	10,00,000
Interest outstanding on Debentures	1,20,000
Creditors	8,50,000
	43,95,000
Assets	
Land & Building	17,60,000
Plant & Machinery	12,50,000
Furniture	4,75,000
Patents	1,45,000
Stock	1,80,000
Trade Receivables	5,09,300
Cash at Bank	75,700
	43,95,000

Preference dividends were in arrear for 1 year. Creditors include preferential creditors of ₹ 75,000. Balance creditors are discharged subject to 5% discount.

Assets are realised as under :

	In ₹
Land & Building	24,50,000
Plant & Machinery	9,00,000
Furniture	2,85,000
Patents	90,000
Stock	2,80,000
Trade Receivables	3,15,000

- Expenses of liquidation amounted to ₹ 45,000.
- The liquidator is entitled to a remuneration of 3% on all assets realised (except cash at bank).
- All payments were made on 30th June, 2018.

You are required to prepare the Liquidator's Final Statement of Account as on 30th June, 2018. Working Notes should form part of the answer.

4. (a) (i) The following is an extract of Trial Balance of SM Bank, an overseas bank as on 31st March, 2018. 10

	Dr. ₹	Cr. ₹
Bill Discounted	15,16,800	
Discount Received		1,26,859
Rebate on Bills discounted not due on 31st March, 17		26,592

An analysis of bill discounted is as follows :

Amount in ₹	Due Date	Rate of Discount
1,46,200	4th May, 2018	15
2,30,400	12th May, 2018	15
4,35,900	28th May, 2018	15
4,36,200	18th June, 2018	16
2,68,100	4th July, 2018	16

You are required to calculate Rebate on Bills Discounted as on 31st March, 2018 and show necessary Journal Entries.

(ii) The following informations are also given for SM Bank :

Assets	₹ in Lakhs
Standard	75,00
Sub-Standard	60,00
Doubtful : for 1 Year (fully secured)	12,00
for 1 to 3 Year (fully secured)	9,00
for more than 3 Years	9,00
Loss Assets	15,00

Additional Information :

(1) Standard Assets includes ₹ 15,00 Lakhs Advances to Commercial Real Estate (CRE).

(2) Out of ₹ 60,00 Lakhs of Sub-Standard Asset ₹ 20,00 Lakhs are unsecured. Unsecured includes ₹ 5,00 Lakhs in respect of Infrastructure Loan Accounts with ESCROW safeguard.

(3) Doubtful Asset for more than 3 Years includes ₹ 4,00 Lakhs, which is covered by 50% ECGC, value of security of which is ₹ 150 Lakhs.

You are required to find out the amount of provision to be shown in the Profit & Loss Account of SM Bank.

Marks

(b) Babu Bhai Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2018 : 5

Assets Funded	Interest Overdue but recognized in Profit & Loss		Net Book Value of Assets Outstanding
	Period Overdue	Interest Amount	
		(₹ In crore)	(₹ In crore)
LCD Televisions	Up to 12 Months	500.00	20,000
Washing Machines	For 24 Months	100.00	2,000
Refrigerators	For 30 Months	50.00	1,250
Air Conditioners	For 45 Months	25.00	600
Mobile Phones	For 60 Months	10.00	100

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

(c) From the following information given by M/s Short Live Insurance Co. Ltd., you are required to pass necessary Journal Entries relating to Unexpired Risk Reserve. 5

(i) On 31.03.2017, it had reserve for unexpired risks amounting to ₹ 160 crores. Its composition was as under :

(a) ₹ 60 crores in respect of Marine Insurance Business

(b) ₹ 80 crores in respect of Fire Insurance Business

(c) ₹ 20 crores in respect of Misc. Insurance Business

Marks

(ii) M/s Short Live Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine Insurance Business and 50% of net premium income in respect of Fire and Misc. income policies.

(iii) During 2017-18, the following business was conducted:

			₹ In crores
Premium Collected From :	Marine	Fire	Misc.
Insured in respect of Policies issued	72	172	48
Other Insurance Companies in respect of risks undertaken	28	20	16
Premium paid / payable to other insurance companies on business ceded	40	20	30

5. (a) H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserve and surplus of ₹ 40,000. 10

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. fared badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively. Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2016 and 2017, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

Marks

(b) The summarized Balance Sheet of T Ltd. for the year ended on 31st March, 2016, 2017 and 2018 are as follows : **10**

	(₹ in thousands)		
Liabilities	**31.03.2016**	**31.03.2017**	**31.03.2018**
1,60,000 equity shares of 10 each, fully paid	1,600	1,600	1,600
General Reserve	1,200	1,400	1,600
Profit and Loss account	140	160	240
Trade Payable	600	800	1,000
	3,540	**3,960**	**4,440**
<u>Assets</u> :			
Goodwill	1,000	800	600
Building & Machinery less depreciation	1,400	1,600	1,600
Inventory	1,000	1,200	1,400
Trade Receivable	20	160	440
Bank Balance	120	200	400
	3,540	**3,960**	**4,440**

Additional Information :

(i) Actual Valuations were as under:

Building & Machinery less depreciation	1,800	2,000	2,200
Inventory	1,200	1,400	1,600
Net Profit (including opening balance after writing off depreciation, goodwill, tax provision and transferred to general reserve	420	620	820

Marks

(ii) Capital employed in the business at market value at the beginning of 2015-16 was ₹ 36,60,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12.5%.

(iii) The balance in the general reserve on 1st April, 2015 was ₹ 10 lakhs.

(iv) The goodwill shown on 31.03.2016 was purchased on 1.4.2015 for ₹ 10 lakhs on which date the balance in the Profit & Loss account was ₹ 1,20,000.

You are required to find out the average capital employed in each year. Also, compute Goodwill, to be valued at 5 year's purchase of Super profit (Simple average method).

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

(a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company. **5**

(b) Bee Co. Ltd. has its share capital divided into Equity Shares of ₹ 10 each. On 1st April, 2017, the company offered 250 shares to each of its 520 employees at ₹ 60 per share, when the market price was ₹ 150 per share. The options were to be exercised between 01-03-2018 to 31-03-2018. **5**

410 employees accepted the offer and paid ₹ 60 per share purchased and the remaining options lapsed.

The company closes its books on 31st March every year.

You are required to show Journal Entries (with narrations) as would appear in the books of Bee Co. Ltd. for the year ended 31st March, 2018 with regard to employees stock options.

Marks

(c) Zest Ltd. gives the following information about its past profits : 5

Year	Profit before Tax (₹ In '000)
2014-15	1,42
2015-16	2,70
2016-17	3,00
2017-18	2,75

Additional informations are given as below:

(i) In Year 2014-15, Zest Ltd. earned an extraordinary income of ₹ 25,000 due to a foreign contract.

(ii) In September 2016, there was an earthquake, due to which the company lost ₹ 50,000 property and it was not covered by any Insurance Policy.

(iii) There is a 10% Non-Trading Investment of ₹ 5,00,000 which was purchased at par by the company on 1st April, 2016.

(iv) Income tax rate is 35%.

(v) Capital Employed as on 31st March, 2018 is ₹ 6,00,000.

(vi) Normal rate of return for the industry in which the company is engaged is 20%.

You are required to calculate the value of Goodwill at three years purchase of super profits. Consider simple average profits for calculation of Goodwill.

Marks

(d) A Mutual Fund purchased 20,000 debentures of a company on June 1, 2017 for ₹ 21.40 lakh and further 10,000 debentures on 1st November, 2017 for ₹ 10.90 lakh. The debentures carry fixed annual coupon of 12%, payable on every 31st March and 30th September. On Feb 28, 2018 the fund sold 12,000 of these debentures for ₹ 13.56 lakh. Nominal value per debenture is ₹ 100. **5**

Show Investment in Debenture A/c in books of the Mutual Fund.

(e) What do you mean by 'Accrual' in reference to AS-1 ? Also, specify any three reasons for 'Accrual Basis of Accounting'. **5**