CA INTER
Test Code – JK-ADV-11
(Date: 26-08-2020)

(Marks - 100)

Answers to questions are to be given only in English
Question No. 1 is compulsory
Candidates are required to answer any four questions from the remaing five questions.
Working notes should form part of the answer.

Q.1 (a) Vivek Co. Ltd. supplied the following information. You are required to compute the basic earnings per share:

Net Profit	:	Accounting Year 2019	:	₹ 30,00,000
		Accounting Year 2020	:	₹ 40,00,000

No. of shares outstanding prior to: 10,00,000 shares

Right Issue	:	One new share for each four outstanding i.e. 2,50,000 shares.
		Right Issue price – ₹ 20
		Last date of exercise rights – 31.3.2020

Fair Value of one Equity Share Immediately prior to exercise of Right on 31.3.2020: ₹ 25

(b) Karma Ltd. is developing a new production process. During the financial year 31st March, 2019, the total expenditure incurred on this process was ₹ 75 lakhs. The production process met the criteria for recognition as an intangible asset on 1st December, 2018. Expenditure incurred till this date was ₹ 28 lakhs.

Further expenditure incurred on the process for the financial year ending 31st March, 2020 was ₹ 90 lakhs. As at 31st March, 2020, the recoverable amount of know–how embodied in the process is estimated to be ₹ 95 lakhs. This includes estimates of future cash outflows as well as inflows.

You are required to work out:

(a) What is the expenditure to be charged to the profit and loss account for the financial year ended 31st March, 2019? (Ignore depreciation for this purpose).

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

(c) What is the expenditure to be charged to profit and loss account for the financial year ended 31st March,2020? (Ignore depreciation for this purpose)

(d) What is the carrying amount of the intangible asset as at 31st March, 2020?

(c) Ajay Ltd. is a Construction company specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March,2020. Using this data and applying the relevant AS you are required to :

(i) Compute the amount of profit/loss for year ended 31st March,2020.

(ii) Arrive at the contract work in progress as at the end of financial year 2019–20.

(iii) Determine the amount of revenue to be recognized out of the total contract value.

(iv) Work out the amount due from / to customers as at year end.

	₹ (Crores)
Total Contact Price	3,200
Work Certified	1,450
Work pending certification	350
Estimated further cost to completion	1,600
Stage wise payments received	1,300
Progress payments in pipe line	400

(d) Is remuneration paid to Key Management Personnel or Non-Executive Directors or Board of Directors, a related party transaction?

Q.2 The Balance Sheet of Unfortunate Bad Luck Ltd. as at 31st March 2020 is as follows

Liabilities	₹	Assets	₹
6% Cum Pref. Shares of ₹ 100 each	1,00,000	Goodwill	1,00,000
Equity Shares of ₹ 100 each	8,00,000	Plant & Machinery	10,00,000
Securities Premium	70,000	Other Fixed Assets	4,30,000
Capital Reserve	10,000	Investments	15,000
10 % Debentures	14,00,000	Stock	1,00,000
Accrued Interest on Debentures	70,000	Sundry Debtors	40,000
Sundry Creditors	4,50,000	Cash at Bank	25,000
Provision for Tax	10,000	Other Current Assets	80,000
		P & L A/c	10,60,000
		Preliminary Expenses	30,000
		Underwriting Commission	20,000
		Discount on issue of shares & Debentures	10,000
	29,10,000		**29,10,000**

Notes:

(i) Dividend on Preference shares are in arrears for three years

(ii) There is a Bill receivable for ₹ 10,000 under discount. The bill was received from Z.

The following scheme of reconstruction is sanctioned:

(a) Equity Shares to be sub-divided into shares of ₹ 10 each.

(b) Equity Shareholders to surrender 90% of their holdings.

(c) The Preference shares are converted from 6% to 15% but revalued in a manner in which the total return on them remains unaffected.

(d) Five equity shares out of those surrendered to be issued for each ₹ 100 of arrears of preference dividend.

(e) The debenture holders agree to reduce their total claim to ₹ 5,00,000 in consideration of their getting equity shares of ₹ 5,00,000 out of the surrendered equity shares.

(f) Sundry Creditors agree to reduce their claim to 20% and in consideration 80% of that amount shall be satisfied by issue of equity shares out of those surrendered.

(g) The taxation liability was settled (but not discharged) at ₹ 15,000

(h) Expenses of re-organization amounted to ₹ 10,000

(i) Z proved insolvent and a dividend of 10% was received from his estate

(j) Shares surrendered and not-issued to be cancelled.

(k) The balance in Securities Premium A/c and Capital Reserve A/c to be utilized.

(l) Goodwill is considered worthless.

(m) The company expected to earn profit @ ₹ 45,000 p.a. from the current year which would be utilized entirely for reducing the debit balance of profit & loss account for the next three consecutive years. The remaining balance of the said account would be written off at the time of Capital Reduction process.

(n) Plant & machinery to be written down by 40%

(o) Other fixed assets to be written down to ₹ 4,10,000.

(p) Stock to the extent of ₹ 10,000 considered to be obsolete.

(q) Debtors to the extent of ₹ 11,000 considered irrecoverable.

(r) Other current assets to be revalued at 75,000.

(s) Any surplus after writing off the various losses & reducing the value of overvalued assets should be utilized in writing down value of plant & machinery further.

(t) A dissentient shareholder transferred his 100 shares to a director.

Required: Pass the necessary journal entries without narrations and prepare the Balance Sheet after reconstruction. **(20 Marks)**

Q.3 (a) X, Y, and Z were in partnership sharing profits and losses in ratio of 3 : 2 : 1. No. interest was to be allowed on current or capital accounts of the partners but their loan accounts were to carry interest of 10% p.a.

Due to persistent losses and the continued illness of X, the firm decided to get dissolved on 30th June, 2020. Its accounts were closed for the last time on 31st March, 2020 on which date its Balance Sheet was as under:

Liabilities	**₹**	**Assets**	**₹**
Capital Account		Plant and Machinery	60,000
X	48,000	Furniture and Fittings	10,000
Y	33,000	Motor Cars	40,000
Loan from X	22,000	Stock	55,000
Trade creditors	80,000	Sundry Debtors	40,000
Bank overdraft	30,000	Capital Account Z	8,000
	2,13,000		**2,13,000**

Between 31st March, 2020 and 30th June, 2020 good of the value of ₹ 30,000 were purchased for cash and cash sales amounted to ₹45,000. In addition to payment to trade creditors payments made were for salaries and wages ₹ 12,000 and for general and office expense ₹ 6,000. Drawings of each partner were 800 p.m. On 30th june, 2020 debtor, creditors and stock-in-trade were ₹ 60,000, ₹ 70,000 and ₹ 45,000 respectively.

In dissolution proceeding the partners agreed to transfer the entire business (with all assets and liabilities including partner's loan) as a going concern to D for a consideration of ₹ 90,000. Cost of dissolution amounted to ₹ 2,800 which were met by X.

Required: Show the necessary Account for the dissolution of firm and also the capital accounts of the partners, assuming that all of them are solvent.

(16 Marks)

(b) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 40,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration on unsecured creditors is ₹ 16,48,000.

Calculate liquidator's remuneration, if the surplus is insufficient to pay off unsecured creditors, in total. **(4 Marks)**

Q.4 (a) XYZ Ltd provides you the following Information about ESOP Scheme.

No. of employees	2500
No. of options to be granted to each employee	500
Vesting period	4 years
No of employees not expected to fulfill the vesting conditions other than market conditions	
1st year	20%
2nd year	15%
3rd year	10%
4th year	10%
No. of employees not expected to fulfill the vesting conditions based on market conditions	
1st year	5%
2nd year	7%
3rd year	10%
4th year	12%
Fait value of the option	₹5
Exercise price	₹50
Market Price	₹ 55
Exercise price	3 years
Face value of each share	₹10

At the end of third year It has been re-estimated that all vesting conditions have been fulfilled and no other further conditions are required for options to vest and 600 employees exercise their option at the end of 4th year, 800 employees exercise their option at the end of 5th year and 100 employees exercise their option at the end of 6th year. Rights of 30 employees expire unexercised at the end of 6th year. Required: Pass necessary Journal entries.

(10 Marks)

(b) From the following information calculate the maximum number of shares that can be bought back and pass the necessary journal entries in the books of BHARAT Ltd:

(a)	10% Redeemable Pref. shares of ₹ 10 each fully paid up	₹ 100 lacs
(b)	Equity Shares of ₹ 10 each fully paid up	₹ 300 lacs
(c)	Securities Premium	₹ 100 lacs
(d)	General Reserve	₹ 200 lacs
(e)	Profit & Loss Account	₹ 300 lacs
(f)	Capital Redemption Reserve	₹ 20 lacs

(g)	Plant Revaluation Reserve	₹ 500 lacs
(h)	Capital Reserve	₹ 600 lacs
(i)	Export Reserve (Statutory Reserve)	₹ 700 lacs
(j)	Secured Loans	₹ 1000 lacs
(k)	Unsecured Loans	₹ 520 lacs
(I)	Current Liabilities	₹ 100 lacs
(m)	Market Price per share ₹ 40	
(n)	Buy Back Price offer 25% over the Market Price.	
(o)	Investments [Face Value ₹ 200 lacs]	₹ 400 lacs

Sufficient Investments were realized at market price which was 125% of the face value. **(10 Marks)**

Q.5 (a) Given below are the Balance Sheets of X Ltd and Y Ltd. as at 31st March 2020:

[₹ in lakhs]

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity Share Capital (₹ 10)	5.00	10.00	Net Tangible Block	19.00	7.60
8% Pref. Share Capital (₹ 100)	1.00	2.00	Investments	3.45	5.20
Reserve	18.00	2.00	Stock	4.00	0.50
Investment Allowance Reserve	2.00	1.00	Debtors	3.52	1.53
			Cash at Bank	0.49	3.02
Profit & Loss A/c	4.25	1.30	Bills Receivable	0.25	0.35
12% Debentures of ₹ 100 each	2.00	1.00	Preliminary Expenses	2.54	1.30
Creditors for goods	0.55	1.85			
Bills Payable	0.45	0.35			
	33.25	**19.50**		**33.25**	**19.50**

The two companies agree to amalgamate as on 1st April, 2020 and form a new company XY Ltd.

Additional Information:

(a) Goodwill of X Ltd. and Y Ltd. on the date of take-over was valued at ₹ 48,000 and ₹ 38,000 respectively and Net Tangible Blocks of X Ltd. and Y Ltd. valued at 10% above their book values on the date of take-over.

(b) Investments of X Ltd. include the Cost of 200 12% Debentures of Y Ltd acquired at paid up value. Investments of Y Ltd. include the Cost of

200 12% Debentures of X Ltd acquired at paid up value. Other investments of X Ltd. & Y Ltd. are considered worth ₹ 4,00,000 and 6,10,000 respectively.

(c) 12% Debentures of X Ltd. and Y. Ltd. are discharged by XY Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(d) To issue such an amount of fully paid 10% Pref. Shares in XY Ltd. at par as sufficient to discharge 9% Pref. Shares in X Ltd. & Y Ltd. at a premium of 20%.

(e) The Equity Shares of XY Ltd are to be of a nominal value of ₹ 10 each credited as ₹ 8 paid up and valued at ₹ 15 per share.

(f) X Ltd. owed Y Ltd. ₹ 60,000 for the purchase of stock from Y Ltd. which made a profit 20% on cost. Four Fifth of such stock were sold till 31st March 2020. All Bills Receivables of Y Ltd. were drawn upon X Ltd. The Bills amounting to ₹ 10,000 have already been discounted with bank by Y Ltd.

(g) Investment Allowance Reserve is to be maintained for 3 years more for Income tax purpose.

Required: Draft the Balance Sheet of XY Ltd. after amalgamation.

(15 Marks)

(b) A commercial bank has the following capital funds and assets. Calculate risk weighted assets ratio.

	Figures in ₹ lakhs
Capital Funds:	
Equity Share Capital	96,000
Statutory Reserve	50,000
Securities Premium	6,000
Capital Reserve (of which ₹ 560 lakhs were due to revaluation of assets and the balance due to sale)	2,420
Assets:	
Cash Balance with RBI	960
Balances with other Banks	2,500
Claim on Commercial Banks	1,200
Other Investments	1,56,500
Loan and Advances:	
(i) Guaranteed by government	25,640
(ii) Guaranteed by public sector undertakings of Government of India	1,40,420
(iii) Granted to staff of Bank fully Covered by Superannuation benefits	2,500
(iv) Others	10,40,000
Premises, furniture and fixtures	36,400
Other Assets	40,000
Off-Balance Sheet Items:	
Acceptances, endorsements and letters of credit	7,00,000
Guarantees and other obligations	40,000

(5 Marks)

Q.6 (a) Compute the amount of Provisions to be made in Profit and Loss Account of SG Bank for the year ending 31st March, 2019.

Assets	**₹ in lakhs**
Standard	10,000
(includes ₹ 1,000 lakhs to Commercial Real Estate-Residential Housing Sector CRE-RH)	
Sub-standard Secured	5,000
Sub-Standard Unsecured	2,000
(includes ₹ 500 lakhs for infrastructure loan accounts where ESCROW accounts are available)	
Doubtful Advance Secured	
- Upto 1 Year	1,000
- 1 Year and upto 3 Years	500
- Above 3 Years	200
- Unsecured	300
Loss Assets	500

(5 Marks)

(b) Three subsidiary companies viz. Company A, B and C, are being merged into another company, viz. Company D. The transferor and transferee companies have received approvals for merger from respective High Courts in January and February, 2020 respectively.

Required:

(a) What is the nature of the 'reserves' (whether capital or general reserves) for the purpose of AS 14 (Para 35) and for the purpose of giving effect to the scheme of amalgamation of the Company Din its books of account?

(b) Whether such reserves are available for the purpose of distribution to shareholders as dividends and/or bonus shares.

(5 Marks)

(c) The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2019.

(i) In lieu of present holding the Equity Shareholders are to receive:
  - (a) Fully Paid Equity Shares equal to 3/5th of their holding.
  - (b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.
  - (c) 10% Second Debentures of ₹ 40,000.

(ii) An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for cash,

(iii) The Assets were reduced as follows:-
  - (a) Building from ₹ 2,00,000 to ₹ 1,50,000
  - (b) Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000
  - (c) Goodwill from ₹ 30,000 to Nil.

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction. **(5 Marks)**

(d) State how you will deal with the following matter in the accounts of Z Ltd. for the year ended 31st March, 2020 with reference to Accounting Standard:
"The company finds that the stock sheets of 31.3.2019 with does not include two pages containing details of inventory worth ₹17 lakhs."

(5 Marks)

(e) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 37,50,000 against which payment was made as follows:

Liquidation Expenses	₹ 37,500
Secured Creditors	₹ 15,00,000
Preferential Creditors	₹ 1,12,500

The amount due to Unsecured Creditors was ₹ 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator.
Calculation shall be made to the nearest multiple of a rupee.

(5 Marks)