CA INTER
Test Code – JK-ADV-12
(Date: 03-10-2020)

(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) An Equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair market value of the equipment are ₹ 3,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 40,000. The (internal rate of return) IRR of the investment is 10%. The present value of annuity factor of Re. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reason whether the lease constitute finance lease

(ii) Calculate unearned finance income.

(5 Marks)

(b) Joker Ltd. has previously recorded timing difference of ₹ 30,000. The enacted tax rate in the year the timing differences originated was 20%. The deferred tax liability has a beginning balance of ₹ 6,000 (₹ 30,000 x 20%). For the current year, taxable income is ₹ 1,20,000 and financial statement income is ₹ 1,60,000. The ₹ 40,000 difference is a timing difference caused by depreciation. The newly enacted rate for the future periods is 30%. The previously recorded timing differences have not yet reversed.

Calculate the tax expense for the current year and deferred tax as on current year end.

(5 Marks)

(c) Victory Ltd. purchased goods on credit from Lucky Ltd. for ₹ 250 crore for export. The export order was cancelled. Victory Ltd. decided to sell the same goods in the local market with a price discount. Lucky Ltd. was requested to offer a price discount of 15%. The Chief accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified.

(5 Marks)

(d) What are the disclosure requirements of AS – 24.

(5 Marks)

Q.2 (a) The following are the figures extracted from the books of KLM Bank Limited as on 31-03-2020.

	₹
Interest and discount received	38,00,160
Interest paid on deposits	22,95,360
Issued and Subscribed capital	10,00,000
Salaries and allowances	2,50,000
Directors fee and allowances	35,000
Rent and Taxed paid	1,00,000
Postage and Telegram	65,340
Statutory Reserve Fund	8,00,000
Commission, Exchange and Brokerage	1,90,000
Rent Received	72,000
Profit on sale of Investments	2,25,800
Depreciation on Bank's properties	40,000
Statutory Expenses	38,000
Preliminary Expenses	30,000
Auditor's Fees	12,000

The following further information is given:

i. A customer to whom a sum of ₹ 10 lakhs has been advanced has become insolvent and it is expected only 55% can be recovered from his estate.

ii. There were also other debts for which a provision of ₹ 2,00,000 was found necessary by the auditors.

iii. Rebate on Bills discounted on 31-03-2019 was ₹ 15,000 and on 31-03-2020 was ₹ 20,000.

iv. Provide ₹ 2,00,000 for Income-tax

v. The Directors desire to declare 5% dividend.

Required:

Prepare the Profit and Loss account of KLM Bank Limited for the year ended 31-03-2020 and also show, how the Profit and Loss account will appear in the Balance Sheet, if the Profit and Loss account opening balance was nil as on 31-03-2019 **(10 Marks)**

(b) The following balances appear in books of "Saregama Bank Limited":

Bills Discounted (During FY 2018-19) ₹ 4,80,00,000.00

Discount Received (During FY 2018-19) ₹ 15,20,000.00

Rebate on bills discounted (as on 1.4.2018) ₹ 2,25,000.00

Details of bills discounted are as follows:

Value of Bill	Due Date	Rate of Discount
25,00,000.00	16.06.2019	10%
50,00,000.00	25.05.2019	11%
40,00,000.00	01.07.2019	12%

You are required:

(1) To calculate the rebate on bills discounted as on 31.03.2019.

(2) To pass necessary journal entries.

(3) Ledger account of Rebate on bills discounted.

(4) Ledger account of Discount on Bills.

(10 Marks)

Q.3 (a) XYZ Ltd was ordered to be wound up on March 31st, 2020 on which date its Balance Sheet as follow.

Liabilities		₹	Assets	₹
10,000 shares of ₹ 100 each		10,00,000	Goodwill	1,00,000
5% debentures	1,60,000		Building	3,50,000
Interest accured	4,000	1,64,000	Plant	5,50,000
Secured by floating charge on all assets)			Fixtures	23,000
Bank overdraft (Secured by hypothecation of stock)		25,000	Stock	38,000
			Debtors	25,000
Sundry creditor		36,000	Cash	500
			P & L A/c	1,38,500
		12,25,000		**12,25,000**

The amount estimated to be realised are; Goodwill ₹ 1,000. Buildings ₹ 3,00,000; Plant ₹ 5,25,000; fixtures ₹ 10,000; Stock ₹ 31,000; Debtors ₹ 20,000. creditors included ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months immediate before the date of winding up: ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for previous 6 months; Rent for godown for the last six months amounting to ₹ 3,000; Income-tax out of salaries of employees ₹ 1,000 and Directors Fees ₹ 500.

Three years ago the debit balance in the Profit and Loss Account was ₹ 77,925 and since that date accounts of the company have shown the following figures:

Particulars	Year 31.3.2018	Year 31.3.2019	Year 31.3.2020
Gross Profit	65,000	45,000	40,000
EXPENSES:			
Wages and salaries	40,500	36,000	34,400
Electricity Water & Tax	5,750	6,380	5,260
Debenture interest	8,000	8,000	8,000
Bad debts	8,540	7,600	6,700
Depreciation	6,700	-	-
Director's Fees	1,000	1,000	1,000
Miscellaneous Expenses	10,500	7,265	7,980
Total Expenses	**80,990**	**66,245**	**63,340**

In Addition: it is estimated the company would have to pay ₹ 5,000 as compensation to an employee for Injuries suffered by him which was a contingent liability not by the company. Prepare the statement of Affairs and the Deficiency Account.

(15 Marks)

(b) ABC Limited went into voluntary liquidation. Details are as follows: 1,000 - 10% Preference Shares of ₹ 100 each fully paid up
Class A - 1,200 equity shares of ₹ 100 each (₹ 80 paid up)
Class B - 800 equity shares of ₹ 100 each (₹ 65 paid up)
Assets realized ₹ 3,50,000 and liquidation expenses is ₹ 8,000. Company has secured Bank Loan of ₹ 60,000 and salary of 3 clerks for 3 months at a rate of ₹ 500 per month are outstanding. Creditors are ₹ 70,000
Calculate amount receivable or returnable from or to equity shareholders.

(5 Marks)

Q.4 (a) The Balance Sheet as at 31st March, 2020 of Sickness Ltd. was as under:

Liabilities	**₹**	**Assets**		**₹**
Share Capital:		**Fixed Assets:**		
8,000 equity shares of ₹ 100 each, ₹ 50 per share paid up	4,00,000	Goodwill at cost	40,000	
		Other	8,50,000	
			8,90,000	
4,000, 11% Cumulative Preference share of ₹ 100 each, fully paid up	4,00,000	**Less:** Depreciation	2,70,000	6,20,000
		Investments		25,000
		Stock in Trade		2,10,000
		Sundry Debtors		2,55,000
General Reserve	1,00,000	Cash and Bank Bal.		1,00,000
Current Liabilities	3,10,000			
Contingent liability not provided: Preference dividends are In arrears for three years including the year ended 31st March, 2020	-			
	12,10,000			**12,10,000**

The funds of the Company are sufficient to discharge its liabilities including Preference Dividends in arrears. However, the company does not want to deplete its resources. It would also like to reflect the value of some of its assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April, 2020.

(a) The Cumulative preference shareholders are to be issued, in exchange of their holdings 13% Debentures of the face value of ₹ 100 each at par.

(b) Arrears in preference dividends to be converted into equity shares of ₹ 100, ₹ 50 per share paid up.

(c) After the issue of the equity shares mentioned in (b) above, the paid up value of all the equity shares is to be reduced to ₹ 25 each.

(d) The face value of all the equity share to be reduced to ₹ 50 each and the balance of the unpaid portion is to be called up fully.

(e) Goodwill has lost its value and has to be written off. Market value of other fixed assets is determined, as at 31st March, 2020 at ₹ 5,00,000.

(f) Investments have no market value and have to be written off.

(g) Stock in trade is to be valued at 110% of its book value and Sundry Debtors are to be discounted by 5%.

(h) General Reserve to be utilised to the expense required.

The scheme, as approved by the Directors, is duly accepted by all authorities and put into effect.

During the working for the half year ended 30th September, 2020, it is noticed that the trading for the period has resulted in an increase of bank balances by ₹ 55,100, Sundry Debtors by ₹ 40,000, Trade Creditors by ₹ 26,000 and decrease in stock by ₹ 8,000. Depreciation for the half year on fixed assets at 10% per annum is to be provided. The increase in the bank balances was prior to the company paying the half yearly interest on the debentures and redeeming one half of the debentures in 30th September, 2020.

Required: Prepare journal and Balance Sheet of Sickness Ltd. as at 30th September, 2020. **(10 Marks)**

(b) A, B and C share profits and losses of a business as to 1/2, 1/3 and 1/6 respectively. Their balance sheet as at 31st March, 2020 was as follows:

Particulars	**₹**	**Particulars**	**₹**	**₹**
Capital Accounts:		Goodwill		10,000
A	70,000	Land		20,000
B	80,000	Buildings		1,10,000
C	10,000	Machinery		50,000
General Reserve	18,000	Motor Car		28,000
Investment Fluctuation Fund	4,000	Furniture		12,000
C's loan	33,000	Investments		18,000
Mrs. A's loan	15,000	Loose tools		7,000
Creditors (trade)	76,000	Stock		18,000
Creditors (expenses)	20,000	Bills receivable		20,000
Bills Payable	14,000	Debtors	40,000	
Bank overdraft	60,000	**Less:** Provision	2,000	38,000
		Cash		1,000
		C's Current A/c		56,000
		Profit and loss A/c		12,000
	4,00,000			**4,00,000**

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorised capital of ₹ 10,00,000 divided into ₹ 100 equity shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the co.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance in company's fully paid shares of ₹ 100 each.

The remaining assets and liabilities of the firm are directly disposed of the firm as per details given below:

Investments are taken over by A for ₹ 13,000; debtors realise in all ₹ 20,000; Motor car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. A agrees to pay his wife's loan and the creditors were paid ₹ 74,000 in final settlement of their claims. Creditors for expenses are paid in full. The realisation expenses amount to ₹ 500. The equity shares received from the vendor company are to be divided among the partners in profit-sharing ratio.

Required: Show the necessary ledger accounts in books of partnership firm.

(10 Marks)

Q.5 Given below are the Balance Sheet of X Ltd and Y Ltd. as at 31st March 2020 at which date Y Ltd. was taken over by X Ltd.

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity Shares of ₹ 10 each	5.00	10.00	Fixed Assets	22.00	11.00
Reserve	26.20	5.85	Current Assets	9.30	4.65
Creditors for goods	1.60	0.55	Misc. Expenditure	3.70	1.85
12% Deb.	2.20	1.10			
	35.00	**17.50**		**35.00**	**17.50**

Required: Calculate the amount of purchase consideration in each of the following alternative cases:

Case I — If X Ltd. agrees to take over only the fixed assets of Y Ltd. and to discharge the purchase consideration by issuing equity shares of ₹ 10 each at a premium of ₹ 45 per share.

Case II — If X Ltd. agrees to take over only the assets of Y Ltd. and to discharge the purchase consideration by issuing equity shares of ₹ 10 each at a premium of ₹ 45 per share.

Case III — If X Ltd. agrees to take over only the assets and trade liabilities of Y Ltd. and to discharge the purchase consideration by issuing equity share of ₹ 10 each, ₹ 8 paid up at a premium of ₹ 47 per share, to the extent 60% and the balance in cash.

Case IV — If X Ltd. agrees to take over only the floating assets and trade liabilities of Y Ltd. and to discharge the purchase consideration by issuing equity shares of ₹10 each at a premium of 450%.

Case V — If X Ltd. agrees to take over the business of Y Ltd. and to discharge the purchase consideration by issuing the equity share of ₹ 10 each at ₹ 55.

Case VI — If X Ltd. absorbs Y Ltd. on the basis of intrinsic value of shares of both the companies as per their respective Balance Sheets.

Case VII — If X Ltd. absorbs Y Ltd. and the holders of every 8 shares in Y Ltd. is to received2 shares in X Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic values of the shares as per their respective Balance Sheet.

Case VIII — If X Ltd. absorbs Y Ltd. and discharges the equity shareholders of Y Ltd. by issuing one equity share of ₹ 10 each at a premium of ₹ 45 per share for four shares in Y Ltd.

Case IX If X Ltd. absorbs Y Ltd. and agrees

(a) to issue such an amount of fully paid 15% Debentures at 96 per cent as is sufficient to discharge 12% Debentures in Y Ltd. at a premium of 10%.

(b) to issue 1 equity shares of ₹ 10 each at a premium of ₹ 45 per share for four equity shares in Y Ltd.

(c) to reimburse the expenses of liquidation to the extent of ₹ 10,000, Actual Expenses amounted to ₹ 15,000

Case X If in Case I, it is also decided to make the entries relating to the issue of shares at par value only.

Case XI If in Case II, it is also decided to make the entries relating to the issue of shares at par value only **(20 Marks)**

Q.6 (a) From the following information of Royal Bank, compute the amount of provisions to be made in the Profit and Loss account.

Assets	**₹ (In Lakhs)**
Standard Assets	25,000
Sub-Standard Assets (including Unsecured ₹ 8,000 lakhs)	15,000
Doubtful Assets	
a. Upto 1 year [Realisable value of Security ₹ 2,200 lakhs)	4,500
b. 1 to 3 years [Realisable value of Security ₹ 1,200 lakhs)	3,200
c. More than 3 years (no Security)	1,300
Loss Assets	530

(5 Marks)

(b) While preparing its final accounts for the ended 31st March,2020 a company made a provision for bad debts @ 5% of its total debtors. In the last week of February, 2020 a debtor for ₹ 2 lakhs had suffered heavy loss due to earthquake; the loss was not covered by any insurance policy. In April 2020 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2020?

(5 Marks)

(c) A Limited grants 5,000 options to its employees on 1.04.2015 at ₹ 90/-, when the market price was ₹ 150/-. The vesting period is 3 years. The maximum exercise period is one year. 4,500 options were exercised on 31.03.2019, the remaining options lapsed. Journalize the transactions, if the face value of equity shares is ₹ 10/- per share. Ignored narrations.

(5 Marks)

(d) An airline is required by law to overhaul its aircraft once in every five years. The Antarctic Airlines which operate aircrafts does not provide any provision as required by law in its final accounts. Discuss with reference to relevant Accounting Standard 29.

(5 Marks)

(e) For a banking company, bills for collection was ₹ 21 lakhs as on 1st April, 2018. During 2018-19, bills received for collection amounted to ₹ 193.50 lakhs. Bills collected were ₹ 141 lakhs. Bills dishonoured was ₹ 16.50 lakhs. Prepare Bills for Collection (Assets) and Bills for Collection (Liabilities) Account.

(5 Marks)