

Roll No.

— Total No. of Questions – 6

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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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 who 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 answers.

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1. (a) The Accountant of Shiva Limited has sought your opinion with **5** relevant reasons, whether the following transactions will be treated as change in Accounting Policies or change in Accounting Estimates for the year ended 31st March, 2021. Please advise him in the following situations in accordance with the provisions of AS – 5 :
- (i) Provision for doubtful debts was created @ 3% till 31st March, 2020. From the Financial year 2020-2021, the rate of provision has been changed to 4%.

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- (ii) During the year ended 31st March, 2021, the management has introduced a formal gratuity scheme in place of ad-hoc ex-gratia payments to employees on retirement.
 - (iii) Till 31st March, 2020 the furniture was depreciated on straight line basis over a period of 5 years. From the Financial year 2020-2021, the useful life of furniture has been changed to 3 years.
 - (iv) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.
 - (v) During the year ended 31st March, 2021, there was change in cost formula in measuring the cost of inventories.
- (b) The following information is furnished in respect of Mohit Limited for the year ending 31st March, 2022.

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- (i) Depreciation as per accounting records ₹ 56,000
Depreciation for income tax records ₹ 38,000

The above depreciation does not include depreciation on new addition.

- (ii) A new machinery purchased on 1st April, 2021 costing ₹ 24,000 on which 100% depreciation is allowed in the 1st Year for income tax purpose, whereas straight line method of depreciation is considered appropriate for accounting purpose with a life estimation of 4 years.

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(iii) The company has made a profit of ₹ 1,28,000 before depreciation and taxes.

(iv) Donation to private trust during the year is ₹ 15,000 (not allowed under Income tax laws.)

(v) Corporate tax is 40%.

Prepare relevant extract of statement of Profit & Loss for the year ending 31st March, 2022. Also show the effect of the above items on Deferred Tax Liability / Assets as per AS - 22.

(c) The following information is provided to you :

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Net profit for the year 2022 : ₹ 72,00,000

Weighted average number of equity shares outstanding during the year 2022: 30,00,000 shares

Average Fair value of one equity share during the year 2022 : ₹ 25.00

Weighted average number of shares under option during the year 2022: 6,00,000 shares

Exercise price for shares under option during the year 2022 : ₹ 20.00

You are required to compute Basic and Diluted Earnings Per Share as per AS-20.

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(d) MN Limited operates its business into various segments. Its financial year ended on 31st March, 2022 and financial statements were approved by their approving authority on 15th June, 2022. The following material events took place :

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- (i) On 7th April, 2022, a fire completely destroyed a manufacturing plant of the entity. It was expected that the loss of ₹ 15 crores would be fully covered by the insurance company.
- (ii) A claim for damage amounting to ₹ 12 crores for breach of patent had been received by the entity prior to the year end. It is the director's opinion, backed by legal advice that the claim will ultimately prove to be baseless. But it is still estimated that it would involve a considerable expenditure on legal fees.
- (iii) A major property was sold (it was included in the balance sheet at ₹ 37,50,000) for which contracts had been exchanged on 15th March, 2022. The sale was completed on 15th May, 2022 at a price of ₹ 39,75,000.

You are required to state with reasons, how each of the above items should be dealt with in the financial statements of MN Limited for the year ended 31st March, 2022 as per AS – 4.

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2. The following is the Balance Sheet of Purple Limited as at 31st March, 2022 :

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Balance Sheet of Purple Limited as at 31st March, 2022

Particulars	Notes	Amount in ₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings - Bank Overdraft		2,00,000
Total		16,20,000
II. Assets		
(1) Non-Current Assets		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
(2) Current Assets		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and cash equivalents		7,600
Total		16,20,000

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Notes to Accounts

	₹	₹
(1) Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
(4) Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividends on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction :

- The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- The value of equity shares is brought down to ₹ 8 per share.

- (iii) The arrears of dividend on preference shares are cancelled.
- (iv) The debit balance of Goodwill account is written off entirely.
- (v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.
- (vii) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.
- (viii) The balance of total capital reduction is to be utilized in writing down Patents.
- (ix) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

3. (a) H Ltd. and S Ltd. provide the following information as at 31st March, 2022 :

	H Ltd. ₹	S Ltd. ₹
Property, Plant and Equipment	2,00,000	2,60,000
Investments (14,000 Equity Shares of S Ltd.)	2,52,000	—
Current Assets	1,48,000	1,40,000
Share capital (Fully paid equity shares of ₹ 10 each)	3,00,000	2,00,000
Profit and loss account	1,00,000	80,000
Trade Payables	2,00,000	1,20,000

Additional information :

H Ltd. acquired the shares of S Ltd. on 1st July, 2021 and Balance of profit and loss account of S Ltd. on 1st April, 2021 was ₹ 60,000.

Prepare consolidated balance sheet of H Ltd. and its subsidiary as at 31st March, 2022.

- (b) DS Finance Limited is a non-banking financial company. It provides you with the following information regarding its outstanding amount, ₹ 100 lakhs of which instalments are overdue on:

- 400 accounts for last one month (amount overdue ₹ 20 lakhs),
- 24 accounts for two months (amount overdue ₹ 12 lakhs),
- 10 accounts for more than 30 months (amount overdue ₹ 10 lakhs)
- 4 accounts for more than 3 years (amounts overdue ₹ 10 lakhs - already identified as sub-standard assets)

- 1 account of ₹ 5 lakhs which has been identified as non-recoverable by management.
- Out of 10 accounts overdue for more than 30 months, 6 accounts are already identified as sub-standard (amount ₹ 3 lakhs) for more than 12 months and others are identified as sub-standard assets for a period of less than twelve months.

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

4. (a) M, N and O were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. There was no provision in the agreement for interest on capitals or drawings.

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M died on 31st March, 2021 and on that date, the partners' balances were as under:

Capital Account : M – ₹ 75,000 (Cr); N - ₹ 50,000 (Cr); O – ₹ 25,000 (Cr)

Current Account : M – ₹ 50,000 (Cr); N - ₹ 37,500 (Cr); O – ₹ 12,500 (Dr)

By the partnership agreement, the sum due to M's estate was required to be paid within a period of 3 years, and minimum instalment of ₹ 37,500 each were to be paid, the first such instalment falling due immediately after death and the subsequent instalments at half-yearly intervals. Interest @ 6% was to be credited half-yearly.

In ascertaining M's share, Goodwill (not recorded in the books) was to be valued at ₹ 1,12,500 and the assets, excluding the Joint Assurance Policy (mentioned below) were valued at ₹ 75,000 in excess of the book values.

No Goodwill account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 50,000 matured on 01.04.2021, realizing ₹ 65,000; payment of ₹ 37,500 each were made to M's Executors on 01.04.2021, 30.09.2021 and 31.03.2022. N and O continued trading on the same terms and conditions as previously and the net profit for the year ending 31.03.2022 (before charging the interest due to M's estate) amounted to ₹ 65,000. During that period, the partners' drawings were N - ₹ 18,750 and O - ₹ 10,000.

On 01.04.2022, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 2,25,000 was accepted on that day. A cheque for that sum was received on 30.06.2022.

The balance due to M's estate, including interest, was paid on 30.06.2022 and on that day, N and O received the sums due to them.

You are required to write-up the Partners' Capital Accounts and Partners' Current Accounts from 01.04.2021 to 30.06.2022. Show also the account of executors of M.

- (b) Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) firm in respect of the following:

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- (i) Applicable Law
- (ii) Perpetual Succession
- (iii) Ownership of Assets
- (iv) Liability of Partners / Members
- (v) Principal – Agent Relationship

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5. (a) Following information of RJS Bank Limited for the year ended 31st March, 2022 are as under :

Particulars	₹ in '000
Total interest earned and received on term loans	6375.00
Interest earned on term loans classified as NPA	1827.50
Interest received on term loans classified as NPA	595.00
Total interest earned on cash credits and overdrafts	14157.50
Interest earned but not received on cash credits and overdrafts treated as NPA	2307.50
Interest on Deposits	10300.00
Commission, exchange and brokerage	502.50
Profit on sale of Investments	4690.00
Profit on revaluation of Investments	855.00
Income from Investments	5435.00
Payment to and provision for employees	6862.50
Rent, Taxes and Lighting	962.50
Printing and Stationery	155.00
Director's fees, allowances and expenses	782.50
Repairs and Maintenance	140.00
Depreciation on Bank's property	247.50
Insurance	107.50

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Classification of Assets :

Particulars	₹ in '000
Standard [including advances to Commercial Real Estate (CRE) sector ₹ 17,50,000]	11,750
Sub-standard (fully secured)	4,750
Doubtful Assets not covered by security	1,000
Doubtful Assets covered by security for 1 year	100
Loss Assets	750

You are required to :

- (i) Prepare Profit and Loss account of RJS Bank Limited including Schedules for the year ended 31st March, 2022 and calculate provision required to be made on Risk Assets.
- (b) Proud Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's banker to whom the company owes ₹ 10 crores. The company owes the following amounts to others:
- (i) Dues to workers – ₹ 2,50,00,000
- (ii) Taxes payable to Government – ₹ 60,00,000
- (iii) Unsecured Creditors – ₹ 1,20,00,000

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You are required to compute with the reference to the provisions 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 ₹ 8,00,00,000.

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

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(a) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS - 9.

(i) Delivery is delayed at buyer's request but buyer takes title and accepts billing.

(ii) Instalment Sales.

(iii) Trade discounts and volume rebates.

(iv) Insurance agency commission for rendering services.

(v) Advertising commission.

(b) PG Limited furnishes the following Balance Sheet as at 31st March, 2022 :

	Particulars	Notes	₹ (in Lakhs)
1.	Equity and Liabilities		
	Shareholders' funds		
	(a) Share Capital	1	12,000
	(b) Reserves and Surplus	2	8,100
2.	Current liabilities		
	(a) Trade Payables		7,450
	(b) Other Current Liabilities		1,950
	Total		29,500
	Assets		
1.	Non-current assets		
	(a) Property, Plant and Equipment		12,760
	(b) Non-current Investments		740
2.	Current assets		
	(a) Inventories		6,000
	(b) Trade receivables		2,600
	(c) Cash and cash equivalents		7,400
	Total		29,500

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Notes to accounts

	Particulars	₹ (in Lakhs)
1.	Share Capital	
	Authorized, issued and subscribed capital	
	Equity share capital (fully paid up shares of ₹ 10 each)	<u>12,000</u>
2.	Reserves and Surplus	
	Securities premium	1,750
	General reserve	2,650
	Capital redemption reserve	2,000
	Profit and Loss account	1,700
	Total	8,100

On 1st April, 2022, the company announced the buy-back of 25% of its Equity Shares @ ₹ 15 per share. For this purpose, it sold all of its investments for ₹ 750 lakhs.

On 5th April, 2022, the company achieved the target of buy-back.

You are required to pass necessary journal entries for the above transactions.

- (c) At the beginning of year 1, an enterprise grants 1,000 stock options to a senior executive, conditional upon the executive remaining in the employment of the enterprise until the end of year 3. The exercise price is ₹ 400. However, the exercise price drops to ₹ 300 if the earnings of the enterprise increase by at-least an average of 10 percent per year over the three-year period.

On the grant date, the enterprise estimates that the fair value of the stock options, with an exercise price of ₹ 300, is ₹ 160 per option. If the exercise price is ₹ 400, the enterprise estimates that the stock options have a fair value of ₹ 120 per option.

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During year 1, the earnings of the enterprise increased by 12 percent, and the enterprise expects that earnings will continue to increase at this rate over the next two years. The enterprise, therefore, expects that the earnings target will be achieved, and hence the stock options will have an exercise price of ₹ 300.

During year 2, the earnings of the enterprise increased by 13 percent, and the enterprise continues to expect that the earnings target will be achieved.

During year 3, the earnings of the enterprise increased by only 3 percent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 1,000 vested stock options have an exercise price of ₹ 400.

You are required to calculate the amount to be charged to Profit and Loss Account every year on account of compensation expenses.

- (d) At the end of the financial year ending on 31st March, 2022, a company finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the Board of Directors. The possible outcome as estimated by the Board is as follows :

Particulars	Probability	Loss (₹)
In respect of five cases (Win)	100%	—
Next ten cases (Win)	50%	—
Lose (Low damages)	40%	12,00,000
Lose (High damages)	10%	20,00,000
Remaining five cases		
Win	50%	—
Lose (Low damages)	30%	10,00,000
Lose (High damages)	20%	21,00,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and the accounting treatment in respect thereof as per AS - 29.

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(e) Star Limited agreed to take over Moon Limited on 1st April, 2022. The terms and conditions of takeover were as follows :

- (i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
- (ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
- (iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required :

- (i) to give the meaning of “consideration for the amalgamation’ as per AS -14, and
- (ii) Calculate the amount of purchase consideration.

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