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FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2021 Question Paper · Paper 5 Advanced Accounting

EXAM	YEAR	TYPE	SUBJECT
CA Intermediate	2021	Question Paper	Paper 5 Advanced Accounting

DATE

January 2021

IPCE (New Syllabus)
Paper - 5
Advanced Accounting

JAN 2021

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **15**

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 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 and disclosed by way to note.

Working notes should form part of the answer.

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1. (a) A Company acquired for its internal use a software on 01.03.2020 from U.K. for £ 1,50,000. The exchange rate on the date was as ₹ 100 per £. The seller allowed trade discount @ 2.5%. The other expenditures were : **5**

   (i) Import Duty 10%

   (ii) Additional Import Duty 5%

   (iii) Entry Tax 2% (Recoverable later from tax department).

   (iv) Installation expenses ₹ 1,50,000.

   (v) Professional fees for clearance from customs ₹ 50,000.

   Compute the cost of software to be Capitalised as per relevant AS.

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(b) State whether the following items are an example of change in Accounting Policy / Change in Accounting Estimates / Extraordinary items / Prior period items / Ordinary Activity. **5**

(i) Actual bad debts turning out to be more than provisions.

(ii) Change from Cost model to Revaluation model for measurement of carrying amount of PPE.

(iii) Government grant receivable as compensation for expenses incurred in previous accounting period.

(iv) Treating operating lease as finance lease.

(v) Capitalisation of borrowing cost on working capital.

(vi) Legislative changes having long term retrospective application.

(vii) Change in the method of depreciation from straight line to WDV.

(viii) Government grant becoming refundable.

(ix) Applying 10% depreciation instead of 15% on furniture.

(x) Change in useful life of fixed assets.

(c) The Senior Accountant of AMF Ltd. gives the following data regarding its five segments : **(₹ in lakhs)** **5**

Particulars	**P (₹)**	**Q (₹)**	**R (₹)**	**S (₹)**	**T (₹)**	**Total (₹)**
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

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The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view ? Examine his opinion in the light of provision of AS-17 'Segment Reporting'.

(d) The following particulars are stated in the Balance Sheet of HS Ltd. as on 31-3-2019 : **5**

Particulars	**(₹ in lakhs)**
Deferred Tax Liability (Cr.)	60.00
Deferred Tax Assets (Dr.)	30.00

The following transactions were reported during the year 2019-20 :

	(₹ in lakhs)
Depreciation as per accounting records	160.00
Depreciation as per income tax records	140.00
Items disallowed for tax purposes in 2018-19 but allowed in 2019-20	20.00
Donation to Private Trust	20.00
Tax rate	30%

There were no additions to fixed assets during the year. You are required to show the impact of various items on Deferred Tax Assets and Deferred Tax Liability as on 31-3-2020 as per AS-22.

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2. Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarised Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows : **20**

	Galaxy Ltd. ₹	Glory Ltd. ₹
(I) **Equity & Liabilities**		
(1) **Shareholders' fund**		
Share Capital		
Equity shares of ₹ 10 each	8,40,000	4,55,000
Reserves & Surplus		
General Reserve	4,48,000	40,000
Profit & Loss A/c.	1,12,000	72,000
(2) **Non-current Liabilities**		
Secured Loan		
6% Debentures	–	3,30,000
(3) **Current Liabilities**		
Trade Payables	4,20,000	1,83,000
Total	**18,20,000**	**10,80,000**
(II) Assets		
(1) **Non-current assets**		
Property, Plant & Equipment		
Freehold property, at cost	5,88,000	3,36,000
Plant & Machinery, at cost less depreciation	1,40,000	84,000
Motor vehicles, at cost less depreciation	56,000	–
(2) **Current Assets**		
Inventories	3,36,000	4,38,000
Trade Receivables	4,62,000	1,18,000
Cash at Bank	2,38,000	1,04,000
Total	**18,20,000**	**10,80,000**

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Assets and Liabilities are to be taken at book value, with the following exceptions :

(i) The Debentures of Glory Ltd. are to be discharged by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.

(iii) Goodwill is to be valued at :

Galaxy Ltd. ₹ 4,48,000

Glory Ltd. ₹ 1,68,000

(iv) Liquidator of Glory Ltd., is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹ 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

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3. (a) Ananya Enterprises is a partnership firm is which A, B and C are three partners sharing profits and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 31st October, 2019 is as below : **15**

Liabilities	₹	Assets	₹
Capital :			
A	95,00,000	Land & Buildings	45,00,000
B	75,00,000	Plant & Machinery	65,00,000
C	30,00,000	Furniture & Fixtures	18,00,000
Sundry Creditors	11,00,000	Stock	13,50,000
		Sundry Debtors	7,50,000
		Cash	7,00,000
		Loan A	25,00,000
		Loan B	30,00,000
	2,11,00,000		**2,11,00,000**

On the Balance Sheet date all the three partners have decided to dissolve their partnership and called you to assist them in winding up the affairs of the firm. They also agreed that asset realisation is distributed among them at the end of each month.

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A summary of liquidation transactions is as follows :

November, 2019

- ₹ 3,00,000 – collected from debtors, balance is uncollectable
- ₹ 11,00,000 – received from the sale of entire furniture
- ₹ 2,00,000 – liquidation expenses paid
- ₹ 6,00,000 – Cash retained in the business at the end of month

December, 2019

- ₹ 2,20,000 – Liquidation expenses paid
- As part payment of his capital, C accepted a machinery for ₹ 9,00,000 (Book value ₹ 6,00,000)
- ₹ 2,00,000 – Cash retained in the business at the end of month.

January, 2020

- ₹ 28,00,000 – Received on the sale of remaining plant & machinery
- ₹ 9,00,000 – Received from the sale of entire stock
- ₹ 1,50,000 – Liquidation expenses paid
- ₹ 63,00,000 – Received on sale of Land & Buildings
- No cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Highest Relative Capital Method" as on 31st January, 2020.

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(b) Universal Financers Ltd. is a Non-Banking Financial Company. It provides you the following information regarding its advances of ₹ 440 lakhs, of which instalments are overdue on : 5

- 550 accounts for last 3 months (amount overdue ₹ 105 lakhs)
- 75 accounts for 4 months (amount overdue ₹ 64 lakhs)
- 25 accounts for more than 30 months (amount overdue ₹ 66 lakhs)
- 15 accounts already identified as sub standard for more than 3 years (unsecured) (amount overdue ₹ 82 lakhs)
- 8 accounts of ₹ 33 lakhs have been identified as non-recoverable by the management. (out of 25 accounts overdue for more than 30 months, 17 accounts are already identified as sub standard for more than 12 months (amount overdue ₹ 19 lakhs) and others are identified as substandard asset for a period of less than 12 months.

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

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4. On 31st March, 2020 the summarised Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows : **20**

	H Ltd. ₹	S Ltd. ₹
Shareholders' Fund		
Issued and subscribed		
Equity shares of ₹ 10 each	13,40,000	2,40,000
Reserves and Surplus	4,80,000	1,80,000
Profit & Loss Account	2,40,000	60,000
Secured Loans		
12% Debentures	1,00,000	–
Current Liabilities		
Trade Payables	2,00,000	1,22,000
Bank Overdraft	1,00,000	–
Bills Payable	60,000	14,800
Total	**25,20,000**	**6,16,800**
Assets		
Non-Current Assets		
(a) Property, Plant & Equipment		
Machinery	7,20,000	2,16,000
Furniture	3,60,000	40,800
(b) Investments		
Investments in S Ltd. (19,200 shares at ₹ 20 each)	3,84,000	–
Current Assets		
Inventories	6,00,000	2,00,000
Trade Receivables	3,00,000	90,000
Bill Receivables	1,00,000	30,000
Cash at Bank	56,000	40,000
Total	**25,20,000**	**6,16,800**

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The following information is also provided to you :

(a) H Ltd. purchased 19,200 shares of S Ltd. on 1st April, 2019, when the balances of Reserves & Surplus and Profit & Loss Account of S Ltd. stood at ₹ 60,000 and ₹ 36,000 respectively.

(b) Machinery (Book value ₹ 2,40,000) and Furniture (Book value ₹ 48,000) of S Ltd were revalued at ₹ 3,60,000 and ₹ 36,000 respectively on 1st April, 2019, for the purpose of fixing the price of its shares. (Rates of depreciation computed on the basis of useful lives : Machinery 10% , Furniture 15%)

(c) On 31st March, 2020, Bills payable of ₹ 12,000 in S Ltd's Balance Sheet were accepted in favour of H Ltd.

You are required to prepare Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020.

5. (a) A 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**

Capital Funds :	**(₹ in lakhs)**
Equity Share Capital	29,00
Perpetual Non-cumulative Preference Shares	8,00
Perpetual Cumulative Preference Shares (fully paid up)	5,50
Statutory Reserve	13,50
Capital Reserve (of which ₹ 13.5 lakhs were due to revaluation of assets and the balance due to sale of assets)	45
Securities Premium	7,00

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	Marks
Assets :	
Cash balance with RBI	3,50
Balances with other banks	4,75
Claims on Banks	10,25
Investments in Bonds issued by other banks	78,00
Investments in venture capital funds	17,00
Other investments	121,00
Loan and Advances :	
(i) Loans guaranteed by Government	16,10
(ii) Loans guaranteed by public sector undertakings	6,20
(iii) Leased assets	4
(iv) Advances against term deposits	15,00
(v) Educational loans	12
Other Assets :	
(i) Premises, Furniture & Fixtures and other assets	150,55
(ii) Intangible assets	18
(iii) Deferred tax asset	0.40
Off Balance Sheet Items :	
(i) Acceptances, Endorsements & letter of credit	203,00
(ii) Non funded exposure to real estate	19,00

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(b) In the winding up of a company, certain Creditors could not receive payments out of the realisation of Assets and out of contribution from "A" list contributories. Liquidation started on 1st April, 2020. The following persons have transferred their holdings before winding up : **10**

Name	Date of Transfer	No. of shares transferred	Amount due to creditors on the date of transfer (₹)
O	4th April, 2019	1,000	42,000
P	2nd Feb, 2019	300	25,000
Q	8th Sep, 2019	200	57,000
R	11th Nov, 2019	1,400	85,000
S	2nd Feb, 2020	800	66,000
T	1st March, 2020	1,400	95,000

The shares were of ₹ 100 each, ₹ 70 being called up and paid up on the date of transfers.

'X' was the transferee of shares held by 'S'. 'X' paid ₹ 30 per share as calls in advance immediately on becoming a member.

Ignoring Expenses of Liquidation, Remuneration of Liquidator, etc. work out the amount to be realised from the above contributories.

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

(a) X Ltd. sold machinery having WDV of ₹ 300 lakhs to Y Ltd. for ₹ 400 lakhs and the same machinery was leased back by Y Ltd. to X Ltd. The lease back arrangement is operating lease. Give your comments in the following situations :

(i) Sale price of ₹ 400 lakhs is equal to fair value.

(ii) Fair value is ₹ 450 lakhs.

(iii) Fair value is ₹ 350 lakhs and the sale price is ₹ 250 lakhs.

(iv) Fair value is ₹ 300 lakhs and sale price is ₹ 400 lakhs.

(v) Fair value is ₹ 250 lakhs and sale price is ₹ 290 lakhs.

(b) List the conditions to be fulfilled as per AS-14 (Revised) for an amalgamation to be in the nature of merger.

(c) Raja Ltd. has its share capital divided into equity shares of ₹ 10 each. On 01-08-2019, it granted 2,500 employees stock options at ₹ 50 per share, when the market price was ₹ 140 per share. The options were to be exercised between 1-10-2019 to 31-03-2020. The employees exercised their options for 2,400 share only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

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You are to required to pass the necessary Journal Entries (including narration) for the year ended 31-03-2020, with regard to employees' stock options and give working notes also.

(d) Equity Capital is held by Anu, Adi and Arun in the proportion of 30 : 30 : 40 and Preference Share Capital is held by Sonu, Shri and Sanaya in the proportion of 40 : 10 : 50. If the paid up Equity Share Capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find the proportion and percentage of their voting right in case of resolution of winding up of the company.

(e) The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 numbers of its fully paid equity shares of ₹ 10 each at ₹ 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013

For this purpose, the company.

(i) Sold its investments of ₹ 30,00,000 for ₹ 25,00,000.

(ii) Issued 20,000, 12% preference shares of ₹ 100 each at par, the entire amount being payable with application.

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(iii) Used ₹ 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back.

(iv) The company has necessary cash balance for the payment to shareholders.

You are required to pass necessary Journal Entries (including narration) regarding buy-back of shares in the books of Umang Ltd.

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