**NATIONAL MANAGEMENT COLLEGE – PERUNDURAI**

**ADVANCED ACCOUNTING**

**Question No 1 is compulsory**

**Answer any 5 question from the remaining 6 questions.**

**DATE: 01.09.2023** **TOTAL MARK : 100**

**TIME : 3Hrs**

**Question No 1**

**A)** Give two examples on each of the following items

(i) Change in Accounting Estimate
(ii) Extra Ordinary Items
(iii) Prior Period Items

B)PNA Corp Limited has outstanding equity shares of 60,00,000 on 31-03-2020. It also has 13% 1,00,000 convertible debentures outstanding of Rs.100 each, to be converted into 10 equity shares each. Tax rate is 40%. Net profit after tax for the year ended 31 March, 2020 is Rs.1,70,00,000

You are required to calculate, (1)
Basic EPS
(2) Prior Period Items

C) Annual lease rent = Rs, 40,000 at the end of the year.

Lease period = 5 years

Guaranteed residual value = Rs. 14,000

Fair value at the inception (beginning) of lease = Rs. 1,50,000

Interest rate implicit on lease is 12.6%. The present value factors at 12.6% are 0.89, 0.79, 0.7,0.622,0.552 at the end of first, second, third, fourth and fifth year respectively.

Show the Journal entry to record the asset taken on finance lease in the books of the lessee.

D)i) In X Co. Ltd, theft of cash of Rs.5 lakhs by the cashier in January, 2007 was detected only in May, 2007. The accounts of the company were not yet approved by the Board of Directors of the company. Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.03.2007, Decide

ii) An earthquake destroyed a major warehouse of ACO Lid on 20.5.2009. The accounting year of the company ended on 31.3.2009. The accounts were approved on 30.6.2009. The loss from earthquake is estimated at Rs. 30 lakhs. State with reason, whether the loss due to earthquake is an adjusting or non adjusting event and how the fact of loss is to be disclosed by the company?

**QUESTION NO 2**

P.Q and R are sharing profits and losses in the ratio 5:3:2 Due to finding of frauds committed by R during the year, it was decided to dissolve the partnership on 31st March,2020 As on 31st March, 2020 As on 31st March, 2020 their Balance Sheet was as under:

| Liabilites | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Partner's | | Plant & Machinery | 6,00,000 |
| P | 4,50,000 | Stock | 4,27,500 |
| Q | 4,50,000 | Investments | 1,45,000 |
| R | - | Debtors | 2,10,000 |
| General reserve | 1,20,000 | Cash | 72,500 |
| Trade creditors | 2,35,000 | R's Capital | 75,000 |
| Bills payable | 1,00,000 | | |
| Mrs. Q's loan | 1,75,000 | | |
| Total | 15,30,000 | Total | 15,30,000 |

Additional information are given as under:

(i) During the year R sold Investment costing of Rs.45,000 at Rs. 56,000 and the said funds were transferred to his personal account. This transaction was not recorded in the firm's books.

(ii)A cheque for Rs. 30,000 was received from debtor, not recorded in the books and was misappropriated by R.

(iii) A Trade creditor agreed to takeover stock of the book value of Rs.25,000 at Rs. 26,500. The rest of the Trade creditors were paid off at a discount of 2%

(iv) The bills payable were settled at a discount of 2%

(v) The expenses of dissolution amounted to Rs. 15,900

(vi) The other assets realized were as follows

| | |
|---|---|
| Plant & Machinery: | 5% above the book value |
| Stock: | Rest of the stock realized at a loss of Rs.15,000 |
| Investments | Rest of investments were sold at a profit of Rs. 5,600 |
| Debtors: | Rest of the debtors were realized at a discount of 12% |

vii) Q agreed to takeover loan of Mrs Q of Rs. 1,75,000

viii) The realizable value of R's private assets would only be Rs. 20,000.

Applying the principles laid down in Gamer vis. Murray, prepare Realization Account, cash

Account and Partner's Capital Accounts.

**10Marks**

**Question No 3 (a)**

PAY Limited furnishes you with the following summarized Balance Sheet as at 31st March,2020:

| | | (₹ in Lakhs) |
|---|---|---|
| Liabilities | | |
| Share Capital | | |
| Authorised | | 300 |
| Issued: | | |
| 11% Redeemable preference shares of ₹ 100 each fully paid | 125 | |
| Equity shares of ₹ 10 each fully paid | 175 | 300 |
| Reserves and surplus: | | |
| Capital reserve | 35 | |
| Securities premium | 155 | |
| 1 To be read as'105 lakhs. | | |
| Revenue reserves | 460 | |
| Profit and loss account | 50 | 650 |
| Current liabilities and provisions | | 50 |
| | | 1000 |
| Assets | | |
| Fixed assets: cost | 100 | |
| Less: Accumulated depreciation | (90) | 10 |
| Non-current investments at cost (Market value ₹ 400 lakhs | | 200 |
| Current assets | | 790 |
| | | 1000 |

(i) The company redeemed preference shares at a premium of 4% on 1st April,2020.

(ii) It also bought back 2.5 lakhs equity shares of Rs. 10 each at Rs.40 per share. The payments for the above were made out of the blank balances, which appeared as a part of current assets.

You are asked to:

(1) Pass journal entries to record the above.

(2) Prepare balance sheet as at 01.04.2020

**Question No 3 (b)** **(10 Mark)**

B and S are partners of S & Co. sharing profits and losses in the ratio of 3:1 S and T are partners of T & Co. sharing profits and losses in the ratio of 2:1

On 31st October, 20X1, they decided to amalgamate and form a new firm M/s. BST & Co. wherein B,S, and T would be partners sharing profits and losses in the ratio of 3:2:1.

Their balance sheets on that data were as under:

| Liabilities | S& Co.₹ | T & Co. ₹ | Assets | S&Co.₹ | T& Co.₹ |
|---|---|---|---|---|---|
| Due to X & Co. | 40,000 | - | Cash in hand | 10,000 | 5,000 |
| Due to S & Co | - | 50,000 | Cash at hand | 15,000 | 20,000 |
| Other Creditors | 60,000 | 58,000 | Due from T & Co. | 50,000 | - |
| Reserves | 25,000 | 50,000 | Due from X & Co | - | 30,000 |
| Capitals | | | Others Debtors | 80,000 | 1,00,000 |
| B | 1,20,000 | - | Stock | 60,000 | 70,000 |
| S | 80,000 | 1,00,000 | Furniture | 10,000 | 3,000 |
| T | - | 50,000 | Vehicles | | 80,000 |

| | | | | | |
|---|---|---|---|---|---|
| | | | Machinery<br>Building | 75,000<br>25,000 | - |
| | 3,25,000 | 3,08,000 | | 3,25,000 | 3,08,000 |

The amalgamated firm took over the business on the following terms:

(a) Goodwill of S & Co. was worth ’60,000 and that of T & Co. Rs 50,000. Goodwill account was not to be opened in the books of the new firm; the adjustments being recorded through capital accounts of the partners.

(b) Building, machinery, and vehicles were taken over at Rs.50,000, Rs, 90,000 and Rs. 1,00,000 respectively.

(c) Provision for doubtful debts has to be carried forward at Rs. 4,000 in respect of debtors of S & Co. and Rs. 5,000 in respect of debtors of T & Co.

You are required to:

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the journal entries in the book of BST & Co. assuming that excess/deficit capital (taking T’s capital as base ) with reference to share in profits are to be transferred to current accounts.

**QUESTION NO 4 (b)**

An extract from the statement profit and loss of a company for 2012-13 is given below:

| | ₹ 000 | ₹ 000 |
|---|---|---|
| Sales | | 3,000 |
| Opening stock | 500 | |
| Production cost | 2,800 | |
| | 3,300 | |
| Less: closing stock | | (2,700) |
| Gross Profit | (600) | 300 |
| Expenses | | (250) |
| Profit before tax | | 50 |
| Tax | | 20 |
| Profit after tax | | 30 |

The closing stock includes stock damaged in a fire in 2011-12. On 31/03/12, the estimated net realizable value of this stock was Rs. 15,000. The revised estimate of net realizable value of the damaged stock included in closing stock of 2012-13 is Rs. 5,000.

Rewrite the statement of profit and loss if necessary to comply with requirements of AS 5.

**QUESTION NO 5(a)**

Black Limited and white Limited have been carrying their business independently from

01/04/2018. Because of synergy in business, they amalgamated on and from 1st April, 2020 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 are as follows:

| Liabilities | Black Ltd. (₹) | White Ltd. (₹) |
|---|---|---|
| Share Capital | | |
| Equity share of ₹10 each | 15,00,000 | 14,50,000 |
| 10% Preference shares of ₹ 100 each | 2,00,000 | 1,40,000 |
| Revaluation Reserve | 1,00,000 | 2,00,000 |
| General Reserve | 1,65,000 | 85,000 |
| Profit & Loss Account | | |
| Opening balance | 1,50,000 | 1,20,000 |
| Profit for the year | 2,00,000 | 1,30,000 |
| 15% Debentures of ₹ 100 each (Secured) | 4,00,000 | 5,00,000 |
| Trade payables | 3,10,000 | 1,20,000 |
| | | |
| Land and Buildings | 3,20,000 | 7,40,000 |
| Plant and Machinery | 18,00,000 | 14,00,000 |
| Investments | 1,00,000 | 60,000 |
| Trade Receivables | 4,25,000 | 2,65,000 |
| Cash at Bank | 1,60,000 | 1,30,000 |
| | 30,25,000 | 27,45,000 |

Additional Information:

(i) The authorized capital of the new company will be Rs. 50,00,000 divided into 2,00,000 equity shares of Rs. 25 each.

(ii) Trade payables of Black Limited includes Rs. 15,000 due to white Limited and trade receivables of white Limited shows Rs. 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited and white Limited are to be revalued as under :

| | **Black Ltd. (₹)** | **White Ltd. (₹)** |
|---|---|---|
| Land and Buildings | 5,20,000 | 10,40,000 |
| Inventory | 1,80,000 | 1,25,000 |

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of Rs. 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of Rs. 120 per share (face value '100).

(c) 15% Debenture holders of Black Limited and white Limited are discharged by Grey Limited issuing such number of its 18% Debentures of '100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

**QUESTION NO 5 (B)**

Arihant Limited has its share capital divided into equity shares of Rs.10 each, On 1-10-20X1, it granted 20,000 employees' stock option at Rs.50 per share, when the market price was Rs.120 per share. The options were to be exercised between 10$^{th}$ December, 20X1 and 31 st March, 20X2.The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31 st March every year. Show Journal Entries (with narration) as would appear in the books of the company upto 31 st March, 20X2.

**QUESTION NO 6**

Choice Ltd. Grants 100 stock options to each of its 1,000 employees on 1.4.20X1 for Rs.20, depending upon the employees at the time of vesting of options. Options would be exercisable within a year when it is vested. The market price of the share is Rs.50 each. These options will vest at the end of year 1 if the earning of choice Ltd. Is 16%, or it will vest at the end of the year 2 if the average earning of two years is 13%, or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%. 5,000 unvested options lapsed on 31.3.20X2. 4,000 unvested options lapsed on 31.3.20X3 and finally 3,500 unvested options lapsed on 31.3.20X4.

Following were the earnings of Choice Ltd in the last 3 years:

| Year ended on | Earning (in %) |
|---|---|
| 31.3.20X2 | 14% |
| 31.3.20X3 | 10% |
| 31.3.20X4 | 7 |

850 employees exercised their vested options within a year and remaining options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

**QUESTIONS NO 6 (b)** **10 Marks**

M Ltd. Furnishes the following Balance Sheet as at 31 st March, 20X1:

| | | Particulars | Notes | ₹ (in 000) |
|---|---|---|---|---|
| | | **Equity and Liabilities** | | |
| **1** | | **Shareholders ' funds** | | |
| | A | Share capital | 1 | 5,000 |
| | B | Reserves and Surplus | 2 | 6,310 |
| **2** | | **Non-current liabilities** | | |
| | | Long term borrowings | 3 | 400 |
| **3** | | **Current liabilities** | | |
| | A | Trade payables | | 40 |
| | | Total | | 11,750 |
| | | **Assets** | | |
| | | **Non-current assets** | | |
| | A | Property, plant and Equipment | 4 | 2,750 |
| | | Non-Current Investments (at cost) | | 5,000 |
| **2** | | **Current assets** | | |

| | | | | |
|---|---|---|---|---|
| | A | Inventories | | 1,000 |
| | B | Trade receivables | | 2,000 |
| | C | Cash and Cash equivalents | | 1,000 |
| | | | | 11,750 |

**Notes to accounts**

| No. | Particulars | | ₹ in ('000) |
|---|---|---|---|
| **1** | **Share Capital** | | |
| | Authorized, Issued and Subscribed Capital | | |
| | 3,00,000 Equity shares of ₹ 10 each fully paid up | | 3,000 |
| | 20,000 9% Preference Shares of 100 each | | 2,000 |
| | Total | | 5,000 |
| **2** | Reserves and Surplus | | |
| | Capital reserve | | 10 |
| | Revenue reserve | | 4,000 |
| | Securities premium | | 500 |
| | Profit and Loss account | | 1,800 |
| | Total | | 6,310 |
| **3** | **Long term borrowings** | | |
| | 10% Debentures | | |
| **4** | **Property, plant and equipment (PPE)** | | |
| | PPE: Cost | | 3,000 |
| | Less: Provisions for depreciation | | (250) |
| | Net carrying value | | 2,750 |

The company passed a resolution to buy-back 20% of its equity capital @ Rs.15 per share. For this purpose, it sold its investments of Rs.30 lakhs for Rs. 25 lakhs.

You are required to pass necessary Journal entries.