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BY CA, CPA VINOD KUMAR AGARWAL

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About CA Vinod Kumar Agarwal

Founder Member of A.S. Foundation, India's Largest Academy for C.A. Course.

A fellow member of ICAI.

Past Member, Board of Studies, ICAI.

A merit holder in all the three levels of exams conducted by ICAI (*2nd rank, 4th rank and 24th rank in CA Foundation, CA Intermediate and CA Final respectively*).

Passed Certified Public Accountant (CPA) (USA) exam in 2007.

Scored **99 marks** in Accountancy in CA Foundation.

Post graduation from Pune University with First Class.

Graduation from B.M.C.C, Pune with distinction.

Passed the Diploma in Business Finance Conducted by ICFAI, Hyderabad.

Passed the Derivative Module test conducted by National Stock Exchange.

Teaching experience of Eighteen years.

Guided more than 1,00,000 students.

Authored books on Advanced Auditing for CA Final, Auditing for Intermediate, Accounting Standards, Ind AS, Costing and Financial Management.

Compiled a book "No Truth, Only Interpretations", a book on motivation, inspiration and guidance.

Compiled a book, "Mind Candy", a book on motivation.

Compiled a book, "Sweet Voice", a book on inspirational quotes.

Working experience with Firms like M/s. S.B. Billimoria and A.F. Ferguson (both member firm of Deloitte)

Published article in the **Students Newsletter of ICAI** on "Valuation of Equity Shares" and "Stock Market Index".

Presented a paper on "Corporate Governance and Role of Auditor" in National Students Conference held in Goa.

Simple and effective way of teaching through concept building, class-room practice, home-exercise and power point presentation.

A large variety of problems are solved in the class to meet the examination requirements.

He is ranked as one of the best teachers for "Financial Reporting" and "SFM" at Final Level.

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 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 answer.

Marks

1. (a) As per the provision of AS 4, you are required to state with reason **5**
whether the following transactions are adjusting event or non-adjusting
event for the year ended 31.03.2021 in the books of NEW Ltd.
(accounts of the company were approved by board of directors on
10.07.2021) :
1. Equity Dividend for the year 2020-21 was declared at the rate of
7% on 15.05.2021. *non adjusting.*
 2. On 05.03.2021, ₹ 53,000 cash was collected from a customer but
not deposited by the cashier. This fraud was detected on
22.06.2021. *adjusting.*
 3. One Building got damaged due to occurrence of fire on
23.05.2021. Loss was estimated to be ₹ 81,00,000. *adjusting*

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(b) Given the following information of Rainbow Ltd.:

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- (i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March. ✓
- (ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurbishing of their show-room being underway, on their request, goods were delivered on 10th April. ✓
- (iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April. ✓
- (iv) Dew Ltd. used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 lakhs as interest and royalties respectively from Dew Ltd. during the year 2020-21. ✓
- (v) On 25th December goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year end on 31st March. ✓

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9.

(c) Surgical Ltd. is developing a new production process of surgical equipment. During the financial year ended 31st March, 2020 the total expenditure incurred on the process was ₹ 67 lakhs. The production process met the criteria for recognition as an intangible assets on 1st January, 2020. Expenditure incurred till this date was ₹ 35 lakhs.

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(3)

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Marks

Further expenditure incurred on the process for the financial year ending 31st March, 2021 was ₹ 105 lakhs. As on 31st March, 2021, the recoverable amount of technique embodied in the process is estimated to be ₹ 89 lakhs. This includes estimates of future cash outflows and inflows.

Under the provisions of AS 26, you are required to ascertain:

- (i) The expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2020;
- (ii) Carrying amount of the intangible asset as on 31st March, 2020;
- (iii) Expenditure to be charged to Profit and Loss Account for the year ended 31st March, 2021;
- (iv) Carrying amount of the intangible asset as on 31st March, 2021.

- (d) Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹10,000 (actual cost ₹9,000); the payment of 9% Debentures of ₹50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; (the payment of ₹18 per share in cash;) allotment of two 11% preference shares of ₹10/- each and one equity share of ₹10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively. ✓

The number of shares of the vendor company is 1,50,000 of ₹10/- each fully paid. Calculate purchase consideration as per AS-14.

2. (a) (i) Can preference shares be also issued with differential rights ? Explain in brief. Yes, if 2 yrs d/d not paid ✓
- (ii) Explain the conditions under Companies (Share Capital and Debentures) Rules 2014, to deal with equity shares with differential rights.

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- (b) Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Dark Ltd. and Fair Ltd. as at 31st March, 2021 are given below:

(₹ In Lakhs)

	Particulars	Note No.	Dark Ltd.	Fair Ltd.
I	Equity and Liabilities			
	(1) Shareholders' Funds			
	(a) Share Capital	1	1,650	1,425
	(b) Reserves and Surplus	2	630	495
	(2) Non-Current Liabilities Long Term Borrowings 10% Debentures of ₹100 each		90	45
	(3) Current Liabilities Trade Payables		630	285
	Total		<u>3,000</u>	<u>2,250</u>
II	Assets			
	(1) Non Current Assets			
	(a) Property, Plant and Equipment		1,350	975
	(b) Non Current Investments		225	75

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(2)	Current Assets			
	(a) Inventories		525	375
	(b) Trade Receivables		450	525
	(c) Cash and Cash Equivalents		450	300
	Total		<u>3,000</u>	<u>2,250</u>

Notes to Accounts

		Dark Ltd. (₹ in lakhs)	Fair Ltd (₹ in lakhs)
1	Share Capital		
	Equity Shares of ₹ 100 each	1,200	1,125
	14 % Preference Shares of ₹ 100 each	450	300
		<u>1,650</u>	<u>1,425</u>
2	Reserves and Surplus		
	Revaluation Reserve	225	150
	General Reserve	255	225
	Investment Allowance Reserve	75	75
	Profit and Loss Account	<u>75</u>	<u>45</u>
		<u>630</u>	<u>495</u>

Additional Information :

- (i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.

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(ii) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).

mutual owing
(iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Investment allowance reserve is to be maintained for 4 more years.

★ (v) Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.

(vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorised equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity shares of ₹ 10 each. After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

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3. (a) Moon Ltd. and its subsidiary Star Ltd. provided the following information for the year ended 31st March, 2021. 15

Particulars	Moon Ltd. (₹)	Star Ltd. (₹)
Equity Share Capital	20,000,000	6,000,000
Finished Goods Inventory as on 01.04.2020	4,200,000	3,010,000
Finished Goods Inventory as on 31.03.2021	8,575,000	3,762,500
Dividend Income	1,680,000	437,500
Other non-operating Income	350,000	105,000
Raw material consumed	13,930,000	4,725,000
Selling and Distribution Expenses	3,325,000	1,575,000
Production Expenses	3,150,000	1,400,000
Loss on sale of investments	262,500	Nil
Sales and other operating income	33,250,000	19,075,000
Wages and Salaries	13,300,000	2,450,000
General and Administrative Expenses	2,800,000	1,225,000
Royalty paid	Nil	50,000
Depreciation	315,000	140,000
Interest expense	175,000	52,500

Other information:

- On 1st September, 2018 Moon Ltd. acquired 50,000 equity shares of ₹100 each fully paid up in Star Ltd.
- Star Ltd. paid a dividend of 10% for the year ended 31st March, 2020. The dividend was correctly accounted for by Moon Ltd.

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- Moon Ltd. sold goods of ₹ 17,50,000 to Star Ltd. at a profit of 20% on selling price. Inventory of Star Ltd. includes goods of ₹ 7,00,000 received from Moon Ltd.
- Selling and Distribution expenses of Star Ltd. include ₹ 2,12,500 paid to Moon Ltd. as brokerage fees.
- General and Administrative expenses of Moon Ltd. include ₹ 2,80,000 paid to Star Ltd. as consultancy fees.
- Star Ltd. used some resources of Moon Ltd., and Star Ltd. paid ₹ 50,000 to Moon Ltd. as royalty.

Prepare consolidated statement of Profit and Loss of Moon Ltd. and its subsidiary Star Ltd. for the year ended 31.03.2021 as per schedule III of the Companies Act, 2013.

(b)

GEM Ltd. is a NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March 2021.

	₹ in lakhs	
Paid up Equity Capital	2520	✓
Compulsory convertible preference shares	1035	✓
Free Reserve	243	✓
Share premium	56	✓
Capital Reserve (₹ 220 Lakhs surplus arising out of sale of Building)	319	✓
Deferred revenue expenditure	54	(-)
Debenture issued	702	x
Cash & Bank Balances	243	x
Investments in debentures of subsidiaries	171	
Investments in shares of other NBFC	945	

You are required to calculate Owned Fund and Net Owned Fund.

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Marks

- (a) TJM & Sons is a partnership firm consisting of T, J and M who share profits and losses in the ratio of 2:2:1 and JEK Limited is another company doing similar business. 15

The firm (TJM & Sons) and the company (JEK Ltd) provide you the following ledger balances as on 31.03.2021:

	TJM & Sons (₹)	JEK Ltd. (₹)
Debit Balances :		
Plant & Machinery	7,50,000	24,00,000
Furniture & Fixtures	75,000	3,37,500
Inventories	3,00,000	12,75,000
Trade receivables	3,00,000	12,37,500
Cash at Bank	15,000	6,00,000
Cash in hand	60,000	1,50,000
Credit Balances		
Equity share capital: Equity shares of ₹10 each		30,00,000
Partners Capitals		
T	3,00,000	
J	4,50,000	
M	1,50,000	
General Reserve	1,50,000	10,50,000
Trade Payables	4,50,000	19,50,000

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P.T.O.

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Marks

On the balance sheet date, it was decided that the firm TJM & Sons be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by JEK Limited by issuing 75,000 shares of ₹ 10/- each at a premium of ₹ 4/- per share. Plant & Machinery and Furniture & Fixtures are to be revalued at ₹ 8,50,000 and ₹ 1,00,000 respectively.

Partners of TJM & Sons agreed to divide the shares issued by JEK Limited in the profit sharing ratio and bring necessary cash for settlement of their capital.

The trade payable of TJM & Sons includes ₹ 1,50,000 payable to JEK Limited. An unrecorded liability of ₹ 37,500 of TJM & Sons must also be taken over by JEK Ltd.

You are required to prepare :

- (i) Realisation account, Partners' capital accounts and cash in hand / Bank account in the books of TJM & Sons.
 - (ii) Pass journal entries in the books of JEK Limited for acquisition of TJM & Sons.
- (b) State the circumstances when Garner v/s Murray rule is not applicable.

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5. (a) Mohan Ltd. furnishes the following summarised Balance Sheet as on 31st March 2021. 10

(₹ in Lakhs)

	Amount
Equity and Liabilities :	
Shareholder's fund	
Share Capital	
Equity Shares of ₹10 each fully paid up	780
6% Redeemable Preference shares of ₹50 each fully paid up	240
Reserves and Surplus	
Capital Reserves	58
General Reserve	625
Security Premium	52
Profit & Loss	148
Revaluation Reserve	34
Infrastructure Development Reserve	16
Non-current liabilities	
7% Debentures	268
Unsecured Loans	36
Current Liabilities	395
	2652
Assets:	
Non-current Assets	
Plant and Equipment less depreciation	725
Investment at cost	720
Current Assets	1207
	2652

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25% of ESC (NO.)
25% of EDRA fund.
→ ES + Reserve + security +

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CR

(ES + CR - BB Amt.) =

Minim
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Other information:

- (1) The company redeemed preference shares at a premium of 10% on 1st April, 2021.
- (2) It also offered buy back the maximum permissible number of equity shares of ₹10 each at ₹30 per share on 2nd April, 2021.
- (3) The payment for the above was made out of available bank balance, which appeared as a part of the current assets.
- (4) The company had investment in own debentures costing ₹ 60 lakhs (face value ₹75 lakhs). These debentures were cancelled on 2nd April, 2021.
- (5) On 4th April, 2021 company issued one fully paid up equity share of ₹ 10 each by way of bonus for every five equity shares held by the shareholders.

You are required to :

- (a) Calculate maximum possible number of equity shares that can be bought back as per Companies Act, 2013 and
- (b) Record the Journal Entries for the above mentioned information.

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Marks

(b) From the following information, you are required to prepare Profit and 10

Loss Account of Popular Bank for the year ended 31st March, 2021.

Particulars	₹
Interest on cash credit	13,65,000
Interest on overdraft	5,62,500
Interest on term loans	11,55,000
Income on investments	6,30,000
Interest on balance with RBI	1,12,500
Commission on remittances and transfer	56,250
Commission on letters of credit	88,500
Commission on government business	61,500
Profit on sale of land and building	20,250
Loss on exchange transactions	39,000
Interest paid on deposit	20,40,000
Auditor's fees and allowances	90,000
Directors' fees and allowances	1,87,500
Advertisements	1,35,000
Salaries, allowances and bonus to employees	9,30,000
Payment to Provident Fund	2,10,000
Printing and stationery	1,05,000
Repairs and maintenance	37,500
Postage, telegrams, telephones	60,000

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P.T.O.

Other information :

(i) Interest on NPA is as follows:

	Earned (₹)	Collected (₹)
Cash credit	6,15,000	3,00,000
Overdraft	3,37,500	75,000
Term loans	5,62,500	1,87,500

(ii) Classification of Non Performing Advances

	₹
Standard	22,50,000
Sub-standard	8,40,000
Doubtful assets not covered by security	1,50,000
Doubtful assets covered by security for one year	37,500
Loss Assets	1,50,000

(iii) Investment ₹ 20,62,500

Bank should not keep more than 25% of its investment as 'Held-to-Maturity'. The market value of its rest 75% investment is ₹ 14,81,250 as on 31st March, 2021.

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

(a) A liquidator is entitled to receive remuneration at 3% on the assets realized and 4% on the payment made to creditors and company's bankers. The assets were realized for ₹ 80,00,000. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 1,00,00,000. The company owes following amounts to others :

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Due to workers	₹ 25,00,000
Other Preferential creditors	₹ 20,00,000
Unsecured creditors	₹ 10,50,000

With reference to the provision of the Companies Act 2013, you are required to calculate the amount payable to :

1. Workers
2. Other Preferential creditors
3. Unsecured creditors
4. Liquidator for remuneration and
5. Company's banker's

SHIP/PSM / $\frac{100}{100}$

(b) P, Q, R and S hold equity capital in the proportion of 10:40:20:30. K, L, M and N hold preference share capital in the proportion of 20:10:40:30. If the paid up equity share capital of the company is ₹ 60 lakhs and Preference Share Capital is ₹ 30 lakhs, find their voting rights in case of resolution of winding up of the company.

(c) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost of ₹ 2,25,000. Economic life of the machine is 5 years and output from the machine is estimated as 60,000 units, 75,000 units, 90,000 units, 1,20,000 units and 1,05,000 units consecutively for 5 years.

(Straight line depreciation in proportion of output is considered appropriate.) You are required to compute the following as per AS-19.

- (i) Annual Lease Rent
- (ii) Lease Rent income to be recognised in each operating year and
- (iii) Depreciation for 3 years of lease

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P.T.O.

- (d) “At the time of calculating diluted earnings per share, effect is given to all dilutive potential equity shares that are outstanding during the period.” 5

Comment and also calculate the basic and diluted earnings per share for the year 2020-21 from the following information:

- | | |
|--|-------------|
| (i) Net profit after tax for the year | ₹ 64,12,500 |
| (ii) No. of equity shares outstanding | 15,00,000 |
| (iii) No. of 9% convertible debentures of ₹ 100 issued on 1 st July, 2020 | 75,000 |
| (iv) Each debenture is convertible into 8 Equity Shares | |
| (v) Tax relating to interest expenses | 35% |

- (e) A Company grants 2,000 Employees Stock Options on 1st April, 2018 at ₹ 60 when the market price is ₹ 170. The vesting period is 2.5 years and the maximum exercise period is 1 year. 600 unvested options lapse on 01.05.2020. 1200 options are exercised on 30.06.2021. 200 vested options lapse at the end of the exercise period. You are required to pass necessary journal entries with narrations. 5