

# BRT

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 **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

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|--|--------------|
| 1. (a) Tee Ltd. closes its books of accounts every year on 31 <sup>st</sup> March. The financial statements for the year ended 31 <sup>st</sup> March 2020 are to be approved by the approving authority on 30 <sup>th</sup> June 2020. During the 1 <sup>st</sup> quarter of 2020-21, the following events/ transactions has taken place. The accountant of the company seeks your guidance for the following :<br>(i) Tee Ltd. has an inventory of 50 stitching machines costing at ₹ 5,500 per machine as on 31 <sup>st</sup> March 2020. The company is expecting a heavy decline in the demand in next year. The inventories are valued at cost or net realisable value, whichever is lower. During the month of April 2020, due to fall in demand, the prices have gone down drastically. The company has sold 5 machines during this month at a price of ₹ 4,000 per machine. | <b>5</b>     |

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- (ii) A fire has broken out in the company's godown on 15<sup>th</sup> April 2020. The company has estimated a loss of ₹ 25 lakhs of which 75% is recoverable from the Insurance company.
- (iii) The company has entered into a sale agreement on 30<sup>th</sup> March, 2020 to sell a property for a consideration of ₹ 7,50,000 which is being carried in the books at ₹ 5,50,000 at the year end. The transfer of risk and reward and sale is complete in the month of May 2020 when conveyance and possession gets completed.
- (iv) The company has received, during the year 2018-19, a government grant of ₹ 15 lakhs for purchase of a machine. The company has received a notice for refund of the said grant on 15<sup>th</sup> June, 2020 due to violation of some of the conditions of grant during the year 2019-20.

You are required to state with reasons, how the above transactions will be dealt with in the financial statement for the year ended 31<sup>st</sup> March 2020.

- (b) Saharsh Ltd. is engaged in manufacturing of electric home appliances. The company is in the process of finalizing its accounts for the year ended 31.3.2020 and needs your expert advice on the following issues:

- (i) The company has its plants at 3 different locations. It has to shut down one of its plants due to internal reasons. The said plant site is under a rental agreement till 31.3.2021. The rent per month is ₹ 80,000. If the company cancels the agreement, it has to pay a penal amount equal to six month's rent. The company also has an option to sub-let the site at a rent of ₹45,000 per month.
- (ii) A case has been filed against the company in the consumer court and a notice for levy of a penalty of ₹ 20 lakhs has been received. The company has appointed a lawyer to defend the case for a fee

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of ₹ 2 lakhs. 50% of the fees has been paid and balance 50% will be paid after finalisation of the case. There are 75% chances that the penalty may not be levied.

- (iii) The company had committed to supply a consignment worth ₹ 1 crore to one of its dealers by the year-end. As per the contract, if delivery is not made on time, a compensation of 15% of the value is to be paid. While the consignment was in transit, one of the trucks carrying goods worth ₹ 30 lakhs met with an accident. It was however covered by Insurance. According to the surveyor's report, the policy amount is collectable, subject to 10% deduction. Before closing the books of accounts, the company has received the information that the policy amount has been processed and the dealer has also claimed for the compensation.

Give your answers based on relevant Accounting standard.

- (c) From the following data of Smart Ltd., prepare cash flow statement from Operating activities using direct method as per AS 3 : **5**

	31.03.2020 (₹)	31.03.2019 (₹)
<b>Current Assets:</b>		
Inventory	1,20,000	1,65,000
Trade receivables	2,05,000	1,88,000
Cash & cash equivalents	35,000	20,500
<b>Current Liabilities:</b>		
Trade payable	1,95,000	2,15,000
Provision for tax	48,000	65,000

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Summary of Statement of Profit and Loss		
Sales	85,50,000	
Cost of sales	(56,00,000)	29,50,000
Other Income		
Interest income	20,000	
Fire insurance claim received	1,10,000	1,30,000
Depreciation	(24,000)	30,80,000
Administrative and selling expenses	(15,40,000)	
Interest expenses	(36,000)	
Foreign exchange loss	(18,000)	(16,18,000)
Net Profit before tax and extraordinary income		14,62,000
Income Tax		(95,000)
Net Profit		13,67,000

**Additional information :**

- (1) Trade receivables and Trade payables include amounts relating to credit sale and credit purchase only.
- (2) Foreign exchange loss represents increment in liability of a long-term borrowing due to exchange rate fluctuation between acquisition date and balance sheet date.

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- (d) From the following information provided by XYZ Limited you are required to compute the closing inventory: **5**

**Raw Material P**

Closing Balance 600 units

₹ per unit

Cost price including GST 250

ITC available 20

Freight inward 30

Handling charges 15

Replacement cost 180

**Finished goods Q**

Closing Balance 1500 units

₹ per unit

Material Consumed 250

Direct labour 70

Direct overhead 30

Total Fixed Overhead for the year was ₹ 3,00,000 on a normal capacity of 30,000 units while actual production has been of 25000 units

Calculate the value of closing stock, when

- (i) Net Realisable value of the Finished Good Q is ₹ 450 per unit  
(ii) Net Realisable value of the Finished Good Q is ₹ 340 per unit

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2. The Summarized Balance Sheets of Gyan Ltd. and Kiran Ltd. 16  
as on 31<sup>st</sup> March 2020 are given below :

	Gyan Ltd. (₹ in lakhs)	Kiran Ltd. (₹ in lakhs)
<b><u>Liabilities</u></b>		
<b>Share capital</b>		
Equity share capital of ₹10 each fully paid-up	650	600
10% Preference shares of ₹100 each fully paid-up	150	200
<b>Reserves and Surplus</b>		
General Reserve	-	360
Profit and Loss Account	(260)	
<b>Non-Current Liabilities</b>		
12% Debentures	75	100
Loans from Bank	40	-
<b>Current Liabilities</b>		
Bank overdraft	15	-
Trade payables	95	105
Dividend payable	-	60
	<u>765</u>	<u>1,425</u>
<b><u>Assets</u></b>		
<b>Non-Current Assets</b>		
Tangible Assets	700	900
Investments (including investment in Gyan Ltd.)	-	250
<b>Current Assets</b>		
Trade receivables	65	135
Cash at bank	-	140
	<u>765</u>	<u>1,425</u>

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Gyan Ltd. has acquired the business of Kiran Ltd. as on 31<sup>st</sup> March 2020 as per following scheme of merger :

- (1) Banks agreed to waive-off 50% loan of Gyan Ltd.
- (2) Gyan Ltd. will reduce its shares to ₹ 2 per share and then consolidate 5 such shares into one share of ₹ 10 (new share).
- (3) Gyan Ltd. will issue 2 equity shares (new) for 3 equity shares of Kiran Ltd. The new shares are to be issued @ ₹ 20 each having a face value of ₹ 10 per share.
- (4) Preference shareholders of Kiran Ltd. will be paid off by issuing equivalent number of 10% Preference shares of Gyan Ltd. of ₹ 100 each at a price of ₹ 105 per share.
- (5) Dividend of Kiran Ltd. will be paid after merger to the shareholders of Kiran Ltd.
- (6) Trade payables of Gyan Ltd. include ₹ 50 lakhs payable to Kiran Ltd.
- (7) Kiran Ltd. will cancel its holding of 15 lakh shares of Gyan Ltd. which was held as investment at a cost of ₹ 180 lakhs.

Pass necessary Journal entries in the books of Gyan Ltd. and prepare Balance Sheet after merger.

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3. The summarized balance sheet of two companies, P Ltd and Q Ltd. as at 31<sup>st</sup> March, 2020 are given below;

Particulars	P. Ltd (₹)	Q. Ltd (₹)
<b>Liabilities:</b>		
Equity shares of 10 each	4,20,000	2,50,000
7.5% Preference shares (non-convertible) of ₹ 10 each	3,50,000	1,40,000
<b>Reserves and Surplus</b>		
Reserves and Surplus	62,000	75,000
Profit and Loss Account	1,40,000	50,000
<b>Current Liabilities</b>		
Trade Payables	1,05,000	90,000
P. Ltd. balance		10,000
	<b>10,77,000</b>	<b>6,15,000</b>
<b>Assets:</b>		
<b>Non-Current Assets</b>		
Plant and Machinery	3,74,000	1,10,000
<b>Non-Current Investments</b>		
20,000 Equity shares in Q. Ltd.	2,70,000	-
4,200 Equity shares in P. Ltd.	-	50,400
<b>Current Assets</b>		
Trade Receivables	1,50,000	2,30,000
Inventories	2,30,000	1,98,000
Q. Ltd. balance	15,000	-
Cash at Bank	38,000	26,600
	<b>10,77,000</b>	<b>6,15,000</b>



The other information is as under :

- (i) P. Ltd. acquired the shares in Q. Ltd. on 1<sup>st</sup> October, 2019. As on 31<sup>st</sup> March, 2019, the plant and machinery stood in the books at ₹ 1,25,000, the reserves at ₹ 75,000 and the profit and loss account at ₹ 20,000. The plant and machinery was revalued by P. Ltd. on the date of acquisition of shares of Q. Ltd. at ₹ 1,40,000 but no adjustments were made in the books of Q. Ltd.
- (ii) On 31<sup>st</sup> March, 2019, there was debit balance of ₹ 55,500 in profit and loss account in the books of P. Ltd.
- (iii) Both the companies have provided depreciation on their fixed assets at 10% per annum.
- (iv) No adjustment of preference dividend has been made earlier.
- (v) Out of inventory of Q. Ltd. as on 1<sup>st</sup> October, 2019 inventory of ₹ 32,000 was sold to P. Ltd. for ₹ 32,500 and which has remained unsold by P. Ltd. as on 31<sup>st</sup> March, 2020.
- (vi) Cash-in-transit from Q. Ltd. to P. Ltd. was ₹ 5,000 as at the close of the accounting year.

You are required to prepare a Consolidated Balance Sheet as on 31<sup>st</sup> March, 2020 as per schedule III.

4. (a) State the major changes in Ind-AS 2 vis-à-vis AS 2. in respect of the following namely : 5
  - (i) Machinery Spares
  - (ii) Subsequent assessment of Net Realisable value
  - (iii) Cost Formulae
- (b) Define "Investment property" as per Ind-AS 40 and state whether the following properties will meet the definition of investment property as per Ind AS. 5
  - (i) Owned by a company and leased out under an operating lease.
  - (ii) Held under Finance lease and Leased out under operating lease.
  - (iii) Held under Finance lease and leased out under Finance Lease.
  - (iv) Property acquired with a view for development and re-sale.

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- (c) On 1<sup>st</sup> April 2019, XY Ltd. has issued 20,000 8% Compulsory Cumulative Convertible Preference Shares (CCCPS) of ₹ 100 each. The dividend is payable at the end of every year. Each preference share is convertible into 5 equity shares of the company at the end of 6<sup>th</sup> year. The company has incurred a transaction cost of 5% of the value of proceeds. The prevailing market rate for similar instrument without conversion option is 11% per annum.

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You are required to examine the nature of financial instrument as per Ind AS 109 and pass the journal entry at the time of initial recognition.

The following Present Values of ₹ 1 @ 11% are supplied to you.

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
11%	0.901	0.812	0.731	0.659	0.593	0.535

5. The following extract of the Balance Sheet of Shakti Ltd. as on 31.3.2020 is given :

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	₹
<b>I. Equity and Liabilities</b>	
<b>1. Shareholders' funds</b>	
(a) Share Capital	
Equity share capital (Face value ₹10)	10,00,000
6% Preference share capital (Face value ₹10)	1,50,000
(b) Reserves and Surplus	4,30,000
<b>2. Non-current liabilities</b>	
9% Debentures (Face value ₹100)	4,00,000
8% Loan from bank	2,50,000
<b>3. Current liabilities</b>	
(a) Trade payables	1,95,000
(b) Other current liabilities	1,88,000
<b>Total</b>	<b>26,13,000</b>

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<b>II. Assets</b>	
<b>1. Non-current assets</b>	
(a) Property, Plant and Equipment	
Tangible assets	8,50,000
(b) Non-current investments	9,00,000
<b>2. Current assets</b>	
(a) Inventory	3,18,000
(b) Trade receivables (Net)	3,80,000
(c) Cash and cash equivalents	1,65,000
<b>Total</b>	<b>26,13,000</b>

The company is planning to sell its business to a prospective buyer. For this purpose, it seeks professional assistance in valuation of its Goodwill. A purchaser wants to acquire all equity shares of the company.

The following additional information is provided to you :

- (i) The company will redeem the existing debentures at 10% discount. To finance such redemption, the company will dispose off 50% of its trade investments, which are expected to fetch 105% of its value. The remaining investments are to be taken at market value. These transactions will be prior to purchase of equity shares. Ignore tax impacts on sale of investment.
- (ii) The company has made settlement with the bank. 20% of the loan will be repaid and balance loan will be charged at interest of 7% per annum.
- (iii) 8% of the debts of the company are not recoverable. The company had made a provision of 5% for doubtful debts and debited to Profit and Loss account in the previous year.



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- (iv) Other current liabilities include liability on account of Dividend payable ₹ 1,50,000.
- (v) Goodwill is valued at three years purchase of adjusted average super profit. Normal rate of return on net assets for equity shareholders is 10%.
- (vi) Profits for the year 2018-19 includes government subsidy of ₹ 1,00,000.
- (vii) The company had purchased non-trade investment at a cost of ₹ 2,00,000 on 1.10.2018 yielding interest income of 10% per annum.
- (viii) The resale value of tangible assets is expected to be ₹ 7,40,000. The rate of depreciation adopted for fixed asset was 5% per annum.
- (ix) The inventories of the company are revalued at ₹ 2,95,000.
- (x) The profit after tax of last 3 years are given as under :
- |           |            |
|-----------|------------|
| 31.3.2018 | ₹ 2,28,000 |
| 31.3.2019 | ₹ 3,30,000 |
| 31.3.2020 | ₹ 2,75,400 |
- (xi) The company is planning to restructure its manpower. As a result, a reduction in salary expenses to the extent of ₹ 30,500 is expected in future years.
- (xii) The existing tax rate is 30%. Tax rate effective for future years would be 25%.

You are required to ascertain intrinsic value per equity share. Also compute value of share as per dividend yield method if normal rate of dividend in the industry is 12%.

6. (a) The following particulars in respect of stock options granted by a company are available :

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Grant date	1.4.2018
Number of employees covered	400
Number of options granted per employee	125
Vesting condition: Continuous employment for 2 years	
Nominal value per share (₹)	10
Exercise price per share (₹)	35.
Vesting date	31.3.2020
Exercise date	1.7.2020
Fair value of options per share on grant date (₹)	20.

Position as on 31.3.2019 and 31.3.2020

	31.3.2019	31.3.2020
Number of employees expected to satisfy the condition	370	350
Number of employees left	20	30
Profit before amortization of ESOP Cost	₹ 11,25,000	₹ 12,50,000
Fair value per share	₹60	₹70
Number of shares outstanding	1,00,000	1,00,000

Position as on 1.7.2020

Number of employees exercising the option 340

Compute basic and diluted EPS for the year 2018-19 and 2019-20 (Ignore Tax impacts).

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- (b) Z Industries Ltd. furnishes the following information from which you are required to calculate the prevailing Economic Value Added of the company.

Common shares of ₹ 100 each	10,00,000 shares
12% Debenture of ₹ 100 each	3,50,000 units
Current tax rate	25%
Financial Leverage	1.2 times
Securities Premium Account	₹ 120 lakh
Capital reserve	₹ 80 lakh

It is a prevailing practice for companies in the industry to which Z Industries Ltd. belongs to pay at least a dividend of 12% p.a. to its common shareholders.

7. Answer any **FOUR** of the following :

**4×4  
=16**

- (a) When revenue will be recognized in the following situation :
- Where the purchaser makes a series of installment payments to the seller and the seller deliver the goods only when the final payment is received.
  - Where seller concurrently agrees to repurchase the same goods at a later date.
  - Where goods are sold to distributors, dealers or others for resale.
  - Commissions on service rendered as agent on insurance business.

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- (b) XYZ Finance Ltd. is a non-banking finance company. The extract of its balance sheet are as follows :

(₹ in lakhs)	
	Amount
<b>Equity and Liabilities</b>	
Paid-up equity capital	200
General Reserve	600
<b>Non- Current Liabilities</b>	
Loans	500
Deposits	600
	<b>1,900</b>
<b>Assets</b>	
Property Plant and Equipments	900
<b>Non-Current Investments</b>	
Investments :	
In shares of subsidiaries	250
In debentures of group companies	400
<b>Current Assets</b>	
Cash and bank balances	350
	<b>1,900</b>

You are required to compute 'Net Owned Fund' of XYZ Finance Ltd. as per Non-Banking Financial Company – Systemically Important Non-Deposit taking company and Deposit taking company (Reserve Bank) Directions, 2016.

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- (c) A Mutual Fund raised ₹ 250 lakhs on 1.4.2019 by issue of 25 lakhs units of ₹ 10 per unit. An underwriting arrangement was entered into with ABC Capital Markets Ltd. that agreed to underwrite the entire issue at a commission of 1.2%. The Fund invested 90% of the monies received in the capital market securities to build a portfolio. During the year, the Fund sold securities costing ₹ 25 lakhs at a profit of 20% on selling price and invested the entire money received from sale to buy other securities. The fund management expense for the month amounts to ₹ 5.30 lakhs out of which ₹ 0.80 lakhs were in arrears. The dividend earned was ₹ 2.5 lakhs. The Fund distributed 80% of the realized earnings. The market value of the portfolio on 30.4.2019 was ₹ 304.10 lakhs.

Determine NAV per unit.

- (d) What are the major changes in Ind AS 116 vis-à-vis notified AS 19 with respect to accounting of Sale and Leaseback transactions? Also, comment on whether the concept of classification of leases plays a role in both the standards.
- (e) Grey Ltd. had purchased a machinery on 1.4.2011 for ₹ 30 lakhs, which is reflected in its books at written down value of ₹ 17.5 lakhs on 1.4.2016. The company has estimated an upward revaluation of 10% on 1.4.2016 to arrive at the fair value of the asset.

On 1.4.2018, the machinery was revalued downward by 15% and the company also re-estimated the machinery's remaining life to be 8 years. On 31.3.2020 the machinery was sold for ₹ 9,35,000. The company charges depreciation on Straight Line method.

Prepare Machinery account in the books of Grey Ltd. to record the above transactions.