

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Advanced Accounting and Auditing
Semester-III (Batch: 2019-24)

End Semester Online Examination: December 2020

Date: 26th December, 2020

Duration: 8 hours

Max. Marks: 50

Instructions:

- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.

Marks

Part – A (Answer all the questions)

- Q.1 Explain the difference between 'entrance Fees/admission Fees' and 'membership fees/subscriptions' pertaining to the Accounting for Not for profit organisation/s. Explain accounting treatment by a charity pertaining to 'entrance Fees/admission Fees' in various situations. (5)
- Based on the above, pass necessary journal entries and show the accounting treatment in the final statement of a charity for the following:
- a) 500 members joined the trust and paid entrance fees Rs. 1000 each.
 - b) 500 members joined the trust and paid entrance fees Rs. 1000 each; against which the trust provides certain benefits to the members for life.
 - c) 500 members joined the trust and paid entrance fees Rs. 1000 each; against which the trust provides certain benefits to the members for five years.
- Q.2 Mr. Mehta and Mrs. Mehta are practicing attorneys in India. They render the services in the name of the firm 'Mehta and Mehta Associates'. You are provided the following ledger account of their capital investment in the firm. (5)

Capital A/c.					
Particulars	Mr. Mehta	Mrs. Mehta.	Particulars	Mr. Mehta	Mrs. Mehta
To drawings	72,000	60,000	By Balance b/d	65,000	40,000
To Balance c/d	82,000	36,600	By fees	58,000	32,000
			By fees from other services	30,000	24,000
			By profit	1,200	600
	1,54,200	96,600		1,54,200	96,600

You are required to refer the entries posted in to their capital account ledger and explain each transaction in the form of additional information statements.

- Q.3 Dharma Ltd. and Karma Ltd. are the two different companies in similar line of business. Due to advent of the giant multinational companies in India, management of both the (15)

companies decided to amalgamate their businesses into one and to take advantage of synergies, economy of scale and also to scale up their managerial efficiencies to not only withstand the competition but also to grow. The financial position of both the companies as on 31.03.2019 were as under:

<i>Liabilities</i>	<i>Dharma Ltd.</i>	<i>Karma Ltd.</i>		<i>Dharma Ltd.</i>	<i>Karma Ltd.</i>
20,000 equity shares of Rs. 10 each	20,00,000	-	Goodwill	-	1,00,000
10,000 equity shares of Rs. 10 each	-	10,00,000	Buildings	10,00,000	6,00,000
Provident fund	1,00,000	-	Machinery	4,00,000	5,00,000
Employees profit sharing account	-	60,000	Stock	3,00,000	40,000
Sundry creditors	60,000	40,000	Sundry debtors	2,40,000	40,000
Insurance reserve	1,00,000		Cash at bank	2,20,000	10,000
Reserve account		1,00,000	Cash in hand	1,00,000	10,000
Surplus		1,00,000			
		13,00,000		22,60,000	13,00,000

The assets and liabilities of both the companies were taken over by the new company at their book values except Goodwill of Dharma Ltd. which was valued at Rs. 3, 00,000. The shareholders of the companies were allotted equity shares of Rs. 100 each in lieu of the purchase consideration.

What are the alternatives of calculating purchase consideration in the above mentioned situation? Show the computation of Purchase Consideration of the alternatives.

Also prepare the balance sheet of the merged company considering either of the alternatives.

Part – B (Answer all the questions)

- Q.4 Identify at least two instances of accounts receivable fraud, off balance sheet financing, shell companies, and revenue recognition frauds and suggest forensic accounting techniques to prevent, identify, collect evidences and framing issues at the time of prosecution of such frauds. (5)
- Q.5 The company Flopkart has accumulated substantial losses due to its online local retail operations at Ahmedabad. However, it wishes to diversify into online local wholesale (10)

operations to turnaround its fortunes. The Balance Sheet of Flopkart as on 31st March 2020 is as follows.

Balance Sheet		
Assets	Rs.	Rs
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade Receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit & Loss Account		5,35,000
Total		21,42,500
Liabilities:		
Share Capital		
4,000 6% Cumulative Preference Shares of Rs.100 each	4,00,000	
75,000 equity shares of Rs.10 each	7,50,000	11,50,000
6% Debentures (secured on Freehold Property)	3,75,000	
Outstanding Interest	22,500	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade Payables	3,00,000	
Director's Loans	1,00,000	5,95,000
Total		21,42,500

You are required to determine the net receivables of 6 % debenture holders, preference shareholders, and equity shareholders should the company go for winding up. However, the company decided to reconstruct itself and the following scheme of reconstruction was approved in by the Tribunal.

- i. The preference shares are to be written down to Rs.75 each and equity shares to Rs.2 each.
- ii. Of the preference dividend arrears for 4 years, 3/4th is to be waived and new equity shares of Rs.2 each to be allotted for the balance.
- iii. Outstanding interest on debentures is to be paid in cash.
- iv. Debenture holders agreed to take over freehold property of book value of Rs.1,00,000 at an agreed valuation of Rs.1,20,000 in part repayment of their holdings and to provide additional cash of Rs.1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.
- v. Patents and goodwill is to be written off.
- vi. Inventory is to be written off by Rs.65,000.
- vii. Amount of Rs.68,500 is to be provided for bad debts.
- viii. Remaining freehold property is to be revalued at Rs.3,87,500.
- ix. Trade investments is to be sold for Rs.1,40,000.

- x. Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of Rs.2 each, 5% in cash and 5% being waived.
- xi. There were capital commitments totaling Rs.2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty to be paid by the company.
- xii. Ignore taxation and cost of the scheme.

You are required to pass journal entries, prepare Capital Reduction Account and Balance Sheet of the company after reconstruction.

Q.6 The Ruchi Soya resolution intimation by Ruchi Soya Industries to National Stock Exchange (NSE) is annexed with the question. You are required to study the filing carefully (Refer page 01-09) and with other relevant information at your disposal, answer the following questions analytically. (15)

- i. What is your best estimate of liquidation value of the company?
- ii. Did you see a healthy competition between the Resolution Applicants?
- iii. Do you think the Corporate Debtor managed to command a good value?
- iv. Discuss the chronological legal journey of the case.
- v. In your view which of the parties may have remained aggrieved despite the final resolution?
- vi. What are the financial implications on the share prices of both Ruchi Soya and Patanjali Ayurveda Limited?
- vii. In your view is it a profitable deal for Patanjali Ayurveda Limited?
