

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Advanced Accounting  
Semester-III (Batch: 2014-19)

End Semester Examination: Oct-Nov. 2015

Date: 2<sup>nd</sup> November, 2015

Duration: 3 hours

Max. Marks: 50

**Instructions:**

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- Use of simple calculator is allowed.

Answer any five of the following questions

Marks

- Q.1 Mr. Saroj Ray is a professional lawyer. The Receipts and Payments Account of his practice for the year ending 31.3.2015 is as follows. (10)

Receipts	Rs.	Payments	Rs.
To Balance b/d	2,00,000	By Rent of Office	50,000
To Interest on Investment	5,000	By Rent of Personal Residence	3,000
To Fees from Clients	5,00,000	By Salaries	20,000
To Liquidator's Fees	12,000	By Purchase of Journals	2,000
To Advisory Fee	4,000	By Stipend to Internees	12,000
To Honorarium	25,000	By Purchase of Law Books	3,000
To Sale of old Journals	3,000	By Investment	2,00,000
To Commission	21,000	By Drawings of Cash	30,000
		By Balance c/d	4,50,000
<b>Total</b>	<b>7,70,000</b>	<b>Total</b>	<b>7,70,000</b>

**Balance Sheet as on 31.3.2014**

Liabilities	Rs.	Assets	Rs.
Capital	2,00,000	Furniture	1,00,000
Loan	1,40,000	Computer	20,000
Creditors	60,000	Law Books	30,000
		Investment	50,000
		Cash	2,00,000
<b>Total</b>	<b>4,00,000</b>	<b>Total</b>	<b>4,00,000</b>

**Additional Information:**

- (i) The professional made a new investment of Rs.20,000 which is not reflected in the Receipts and Payments Account. He is likely to earn Rs.4,000 profit in the next year if market conditions favour.
- (ii) Drawings include drawings of cash of Rs.5,000 for payment of school fees of children of the professional. Remaining amount of drawings was for an official purpose.

- (iii) The publisher of law books offered 10% discount, but the professional has shown the full value i.e. Rs.3,000 in the Receipts and Payments Account.
- (iv) The advisory fee was earned by providing a technical advice not related to the profession.
- (v) Accrued fee from clients of Rs.2,000 belonging to the last year has been received this year but has not been included in fees from clients in Receipts and Payments Account.
- (vi) Provision of 100% has to be made for Accrued fees of Rs.30,000. Salary of Rs.10,000 has been paid in advance.

Q.2 Following is the Receipts and Payments Account of Vixen Football Club for the year 2014-15. (10)

Receipts	Rs.	Payments	Rs.
To Balance b/d	2,000	By Salaries	3,000
To Subscriptions:		By Rent and Taxes	300
2013-14	3,000		
2014-15	4,000		
2015-16	1,000		
To Profit on Sports Tournaments	3,000	By Stationery	1,000
To Interest on Securities	1,000	By Telephone Charges	1,500
		By 8% Securities (at par)	5,000
		By Sundry Expenses	200
		By Balance c/d	3,000
<b>Total</b>	<b>14,000</b>	<b>Total</b>	<b>14,000</b>

**Additional Information:**

- (i) There are 500 members in the club each paying an annual subscriptions of Rs.10. The arrears of subscription for the year 2013-14 is Rs.3,500. During 2013-14 subscriptions were paid in advance by 30 members for 2015-16.
- (ii) Stock of stationery as on 31<sup>st</sup> March 2014, was Rs.400 and as on 31<sup>st</sup> March 2015 is Rs.500.
- (iii) As on 31<sup>st</sup> March 2014, the rates and taxes were prepaid up to 31<sup>st</sup> January 2015, the yearly charge being Rs.300.
- (iv) A quarter's charge for telephone is outstanding. The amount outstanding being Rs.300. The charge for each quarter is same for both the years 2013-14 and 2014-15.
- (v) Sundry Expenses outstanding as on 31<sup>st</sup> March 2014 were Rs.50 and on 31<sup>st</sup> March 2015 were Rs.60.
- (vi) On 31<sup>st</sup> March 2014, Building stood in the books at Rs.30,000 and it is required to write off depreciation at 10% p.a.
- (vii) Value of 8% securities as on 31<sup>st</sup> March 2014 was Rs.15,000 which was purchased on that date at par. Additional securities worth Rs.5,000 were purchased on 31<sup>st</sup> March 2015.

From the above information, prepare Profit & Loss Account for the year ended 31<sup>st</sup> March 2015 and Balance Sheet as on 31<sup>st</sup> March 2015.

Q.3 Discuss situations which require companies to float Internal Reconstruction scheme. (10)  
Under which circumstances, a profit making and cash surplus company can productively use capital reduction to enhance shareholders' value. How is capital reduction different from, stock split and buy-back of shares?

Q.4 National Co. Ltd. was acquired by Global Co. Ltd. on 31.12.2014, the Balance Sheet of National Co. Ltd., on that day was as follows.

LIABILITIES	Rs.	ASSETS	Rs.
Eq. Sh.(Rs.10) Capital	10,00,000	Plant and Machinery	12,70,000
General Reserve	4,80,000	Stock	30,000
Employee's P F	20,000	Debtors	50,000
Sundry Creditors	30,000	Cash at Bank	1,00,000
Short term loan	70,000	Preliminary Expenses	1,50,000
<b>Total</b>	<b>16,00,000</b>	<b>Total</b>	<b>16,00,000</b>

The terms and conditions were:

- Global Co. Ltd. took all liabilities at 10% reduction and assets at 10% appreciation except sundry creditors and Plant and Machinery of Rs.50,000 book value, which National sold at Rs.45,000. Global Co. Ltd. and National Co. Ltd. shared the cost of acquisition of Rs.20,000 equally.
- Global Co. Ltd. issued 10 shares of Re.1 each at 50% premium to 80% shareholders in exchange of 1 share and equivalent amount of cash for the remaining shareholders of National Co. Ltd.
- Cash and Bank balance was taken over. Short term loan was repaid by Global Co. Ltd.
- National Co. Ltd. has created provision of 10% for doubtful debts prior to amalgamation.

Show journal entries in the books of both the companies, Realization Account in the books of National Co. Ltd. and opening Balance Sheet of Global Co. Ltd. right after amalgamation.

Q.5 The Balance Sheet of Gati Ltd. as on 31<sup>st</sup> March 2015 is as under:

(10)

Liabilities	Amount	Assets	Amount
5,000 Equity shares of Rs.100 each Rs.60 paid up	2,50,000	Patents	1,70,000
2,000, 10% Preference shares of Rs.100 each	2,00,000	Freehold Premises	50,000
15% Debentures	1,50,000	Machinery	1,50,000
Unsecured Loan	70,000	Stock	1,30,000
Creditors	1,00,000	Debtors	1,20,000
Outstanding interest on Debentures	30,000	Bank	80,000
		Profit & Loss Account	1,00,000
<b>Total</b>	<b>8,00,000</b>	<b>Total</b>	<b>8,00,000</b>

On 01.04.2015, The following scheme of reconstruction passed by the board was approved by the court.

- After making the final call of Rs.40 on the partly paid equity shares, some equity shares were reduced to Rs.70 paid up for the shareholders who agreed with the scheme.
- After the final call, shareholders who do not agree with the scheme, are to be paid Rs.70 per share in cash for buying back their shares and extinguishing all rights thereof. Such dissenting shareholders hold only 500 equity shares.
- Preference shareholders to get 15, 12% preference shares of Rs.10 each in exchange of 2 existing preference shares of Gati Ltd.

- (iv) Liability in respect of 15% debentures and interest accrued thereon is to be discharged directly by the issue of new equity shares of Rs.100 each fully paid-up.
- (v) The creditors of Gati Ltd. will get 60% of their dues in cash and 20% in equity shares of Rs.100 each and the balance is forgone by them.
- (vi) The freehold premises to be appreciated by 20%. The value of machinery is to be reduced by 30% and that of debtors by 10%. The value of stock is to be reduced by Rs.20,000 and the patents will have to be devalued to the extent possible.
- (vii) The reconstruction expenses amount to Rs.5,000.

You are required to pass necessary journal entries and prepare Balance Sheet after Reconstruction in the books of Gati Ltd.

- Q.6 Following are the summarized Balance Sheets of Holding Ltd. and Subsidiary Ltd. as on 31.3.2015. (10)

Liabilities	Holding Ltd. (Rs.)	Subsidiary Ltd. (Rs.)	Assets	Holding Ltd. (Rs.)	Subsidiary Ltd. (Rs.)
Equity Share Capital of Rs.10 each	10,00,000	3,00,000	Freehold Premises	4,50,000	1,20,000
General Reserve	4,00,000	1,25,000	Investment in Subsidiary Ltd. (20,000 shares at cost)	2,60,000	-
Profit & Loss Account	3,00,000	1,75,000	Plant & Machinery	3,50,000	1,60,000
			Furniture	80,000	30,000
Sundry Creditors	1,00,000	70,000	Stock	3,20,000	1,60,000
			Sundry Debtors	3,00,000	1,70,000
			Bank	40,000	30,000
<b>Total</b>	<b>18,00,000</b>	<b>6,70,000</b>	<b>Total</b>	<b>18,00,000</b>	<b>6,70,000</b>

**Additional Information:**

When Holding Ltd. acquired shares in Subsidiary Ltd. on 1.4.2014, Subsidiary Ltd. had Rs.80,000 in Reserves and Rs.75,000(Cr.) in Profit & Loss Account. In September 2014, 40% dividend has been distributed by Subsidiary Ltd. for 2013-14 financial year. Stock of Rs.1,60,000 held by Subsidiary Ltd. consists of Rs.20,000 of goods purchased from Holding Ltd. at cost.

You are required to prepare a Consolidated Balance Sheet of Holding Ltd. with Subsidiary Ltd. as on 31.3.2015.

- Q.7 (a) What are the behavioural red flags to spot employee fraud and measures to counter it? (4+6=10)
- (b) "The regime of International Financial Reporting Standards (IFRS) will bring a paradigm shift in the Indian Generally Accepted Accounting Principles (GAAP). Especially, the thrust on *substance over form*, use of *time value of money* and measurement based on *fair value* are momentous changes." Discuss instances to substantiate understanding of the above mentioned changes proposed in Indian GAAP under the IFRS regime.

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