INTERMEDIATE (IPC)

NOV 2014

Roll No. ....

GROUP II - PAPER 5

ADVANCED ACCOUNTING

Total No. of Questions – **7**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

YRP

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.

Working notes should form part of the respective answer.

Wherever necessary, suitable assumptions may be made by the candidates and disclosed as a note forming part of the answer.

Question No. **1** is compulsory.

Candidates are required to answer any **five** questions from the remaining **six** questions.

Marks

1. Answer the following questions : **4×5 =20**

 (a) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are ₹ 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4^{th} year is ₹ 70,000. The IRR of the investment is 10%. The present value of annuity factor of ₹ 1 due at the end of 4^{th} year at 10% IRR is 3.169. The present value of ₹ 1 due at the end of 4^{th} year at 10% rate of interest is 0.683. **5**

Marks

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income.

(b) A company is showing an intangible asset at ₹ 88 lakhs as on 01.04.2013. This asset was acquired for ₹ 120 lakhs on 01.04.2009 and the same was available for use from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years on straight line basis. Comment on the accounting treatment of the above with reference to the relevant Accounting Standard. **5**

(c) Stem Ltd. purchased a Plant for US$ 30,000 on 30th November, 2013 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 62.15 per dollar. On 30th November, 2013, the exchange rate was ₹ 60.75 per dollar. **5**

How will you recognise the profit or loss on forward contract in the books of Stem Ltd. for the year ended 31st March, 2014 ?

(d) WZW Ltd. is in dispute involving allegation of infringement of patents by a competitor company who is seeking damages of a huge sum of ₹ 1000 Lakhs. The directors are of the opinion that the claim can be successfully resisted by the company. How would you deal the same in the Annual Accounts of the company ? **5**

Marks

2. P and Q were carrying on business sharing profits and losses equally. The firms' Balance Sheet as at 31.12.2013 was : **16**

Liabilities	₹	Assets	₹
Capital Accounts:		Plant	1,60,000
P 1,50,000		Building	48,000
Q 1,30,000	2,80,000	Debtors	75,000
Sundry Creditors	80,000	Stock	70,000
Bank Overdraft	45,000	Joint Life policy	6,000
		Profit & Loss A/c	30,000
		Drawings Account :	
		P 9,000	
		Q 7,000	16,000
Total	**4,05,000**	**Total**	**4,05,000**

The operations of the business were carried on till 30.06.2014. P & Q both withdrew in equal amount half the amount of profit made during the current period of six months after charging depreciation at 10% per annum on plant and after writing off 5% on building.

During the current period of six months, creditors were reduced by ₹20,000 and bank overdraft by ₹ 5,000.

The joint life policy was surrendered for ₹ 6,000 before 30th June 2014. Stock was valued at ₹ 84,000 and debtors at ₹ 68,000 on 30th June 2014. The other items remained the same as at 31.12.2013.

On 30.06.2014, the firm sold its business to PQ Ltd. The value of goodwill was estimated at ₹ 1,30,000 and the remaining assets were valued on the basis of the balance sheet as on 30.06.2014.

PQ Ltd. paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare :

(a) Balance sheet of the firm as at 30.06.2014,

(b) Realisation account,

(c) Partners' Capital Accounts showing the final settlement between them.

3. (a) X Ltd. granted 500 stock options to its employees on 1.4.2011 at ₹ 50 per share. The vesting period is 2½ years and the maximum exercise period is one year. Market price on that date is ₹ 140 per share. All the options were exercised on 30.06.2014. Pass journal entries giving suitable narrations, if the face value of equity share is ₹ 10 per share. 8

(b) Venus Limited recently made a public issue in respect of which the following information is available : 8

(i) No. of partly convertible debentures issued 4,00,000 ; face value and issue price of ₹ 100 per debenture.

(ii) Convertible portion per debenture – 80%, date of conversion – on expiry of 7 months from the date of closing of issue.

(iii) Date of closure of subscription list – 01.06.2013, date of allotment – 01.07.2013, Rate of interest on debentures – 10% p.a. payable from the date of allotment. Value of equity share for the purpose of conversion – ₹ 40 (Face value ₹ 10)

(iv) Underwriting commission – 3%

(v) No. of debentures applied for 3,00,000

(vi) Interest payable on debentures – half yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended on 31st March, 2014 (including cash and bank entries).

Marks

4. The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows : 16

X Limited

Balance Sheet as at 31.03.2014

	Particulars		**Amount (₹)**
I	**Equity and Liabilities**		
1	Shareholder's Fund		
	Share Capital		
	(a) 40000 equity shares of ₹ 100 each fully paid		40,00,000
	(b) 20000, 10% preference shares of ₹ 100 each fully paid		20,00,000
	Reserve & Surplus		
	(a) Securities Premium Account		1,50,000
	(b) Profit & Loss Account		(23,00,000)
2	Non Current Liabilities		
	Long Term Borrowings		
	7% Debentures of ₹ 100 each		4,00,000
3	Current Liabilities		
	Other Current Liabilities		
	(a) Creditors		10,00,000
	(b) Loan from Director		2,00,000
	Total Liabilities		**54,50,000**
II	**Assets**		
1	Non Current Assets		
	Fixed Assets		
	(a) Land & Building	20,00,000	
	(b) Plant & Machinery	12,00,000	32,00,000
	Intangible Assets		
	Goodwill		4,00,000
2	Current Assets		
	(a) Debtors	12,00,000	
	(b) Stock	5,00,000	
	(c) Cash at Bank	1,50,000	18,50,000
	Total Assets		**54,50,000**

No Dividend on Preference Shares has been paid for last 5 years.

Marks

The following scheme of reorganisation was duly approved by the Court :

(i) Each equity share to be reduced to ₹ 25.

(ii) Each existing Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.

(iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.

(iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.

(v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000 ; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.

(vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.

(viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000.

Pass necessary Journal Entries to record the above transactions.

Marks

5. (a) Metro General Insurance Company submits the following information for the year ended 31st March, 2014 : **8**

Particulars	Direct Business (₹)	Reinsurance (₹)
Premium received	75,25,000	8,25,000
Premium paid	–	4,90,000
Claims paid during the year	49,70,000	5,10,000
Claims payable :		
1st April, 2013	6,85,000	95,000
31st March, 2014	7,38,000	70,000
Claims received	–	3,95,000
Claims receivable :		
1st April, 2013	–	75,000
31st March, 2014	–	1,25,000
Expenses of Management	2,90,000	–
Commission :		
On Insurance accepted	1,60,000	15,000
On Insurance ceded	–	18,000

The following additional information are also available :

(1) Expenses of Management include ₹ 45,000 Surveyor's fees and ₹ 55,000 Legal expenses for settlement of claims.

(2) Reserve for unexpired risk is to be maintained @ 40%. The balance of Reserve for unexpired risk as on 01.04.2013 was ₹ 28,40,000.

You are required to make the Revenue Account for the year ended 31st March, 2014.

Marks

(b) A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk adjusted asset and risk weighted asset ratio. State your observation on the risk weighted asset ratio. **8**

Particulars	**Amount (₹ in crores)**
Equity Share Capital	400.00
Statutory Reserve	250.00
Capital Reserve (of which ₹ 18 crores were due to revaluation of assets and the balance due to sale of capital assets)	86.00
<u>Assets</u> :	
Cash Balance with RBI	12.00
Balance with other Banks	20.00
Other Investments	40.00
<u>Loans & Advances</u>	
(i) Guaranteed by Government	14.50
(ii) Others	5,465.00
Premises Furniture & Fixtures	74.00
<u>Off Balance Sheet Items</u>	
(i) Guarantees and other obligations	700.00
(ii) Acceptances, endorsements and letter of credit	4,900.00

Marks

6. (a) LMN is having branch at Mumbai. Goods are invoiced to the branch at 25% profit on sale. Branch has been instructed to send all cash daily to head office. All expenses are paid by head office except petty expenses, which are met by the Branch. From the following particulars, prepare branch account in the books of head office : 8

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock as on 1st April, 2013 (Invoice Price)	40,000	Discount allowed to debtors	300
Sundry Debtors as on 1st April, 2013	25,000	Expenses paid by head office:	
Cash in hand as on 1st April, 2013	1,000	Salary	4,000
Office furniture as on 1st April, 2013	4,000	Staff Welfare	750
Goods invoiced from the head office (invoice price)	1,80,000	Telephone Expenses	1,200
Goods return to head office	6,000	Other Misc. Expenses paid by branch	700
Goods return by debtors	1,250	Stock as on 31st March, 2014 (at invoice price)	35,000
Cash received from Debtors	65,000	Depreciation to be provided on branch furniture	10% p.a.
Cash sales	1,20,000		
Credit sales	70,000		

Marks

(b) Mega Ltd. has two departments, A and B. From the following particulars, prepare departmental Trading A/c and General Profit & Loss Account for the year ended 31st March, 2014. **8**

Particulars	Amount (₹)	
	Department A	Department B
Opening stock as on 01.04.2013 (at cost)	70,000	54,000
Purchases	3,92,000	2,98,000
Carriage Inward	6,000	9,000
Wages	54,000	36,000
Sales	5,72,000	4,60,000
<u>Purchased Goods Transferred :</u>		
By Department B to A	50,000	
By Department A to B		36,000
<u>Finished Goods Transferred :</u>		
By Department B to A	1,50,000	
By Department A to B		1,75,000
<u>Return of Finished Goods :</u>		
By Department B to A	45,000	
By Department A to B		32,000
<u>Closing Stock :</u>		
Purchased Goods	24,000	30,000
Finished Goods	1,02,000	62,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 30% of the closing finished stock with each department represents finished goods received from the other department.

Marks

7. Answer any **four** of the following : **4×4 =16**

(a) Give **two** examples of each of the following items : **4**

(i) Change in Accounting Policy

(ii) Change in Accounting Estimate

(iii) Extra Ordinary Items

(iv) Prior Period Item

(b) What are the indicators of Non-Integral Foreign Operation (NFO) ? **4**

(c) In the following list of shares issued, for the purpose of calculation of weighted average number of shares, from which date weight is to be considered : **4**

(i) Equity Shares issued in exchange of cash,

(ii) Equity Shares issued as a result of conversion of a debt instrument,

(iii) Equity Shares issued in exchange for the settlement of a liability of the enterprise,

(iv) Equity Shares issued for rendering of services to the enterprise,

(v) Equity Shares issued in lieu of interest and/or principal of an other financial instrument,

(vi) Equity Shares issued as consideration for the acquisition of an asset other than in cash.

Also define Potential Equity Share.

Marks

(d) Find out the income to be recognised by ABC Bank Ltd. for the year ended 31st March, 2014 in respect of interest on advances [₹ in Lakhs] as detailed below : 4

	Performing Asset		N.P.A.	
	Interest earned	Interest received	Interest earned	Interest received
Term Loan	280	180	170	20
Cash credits and overdrafts	1700	1630	310	48
Bills purchased and discounted	400	400	180	70

(e) State any four alternative accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure/ service line contributions. 4