

Roll No.
Total No. of Questions – 7

**INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING**

NOV 2016

Total No. of Printed Pages – 15

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

In case any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra questions answered shall be ignored.

Where appropriate, suitable assumption/s should be made by the candidate.

Working notes should form part of the respective answers.

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1. Answer the following questions :	4×5 =20
(a) "While calculating diluted EPS, effect is given to all dilutive potential equity shares that were outstanding during the period." Explain this statement in the light of relevant AS. Also calculate the diluted EPS from the following information :	5
Net Profit for the current year (After Tax)	₹ 1,00,00,000
No. of Equity shares outstanding	10,00,000
No. of 10% Fully Convertible Debentures of ₹ 100 each (Each Debentures is compulsorily & fully convertible into 10 equity shares)	1,00,000
Debenture interest expense for the current year	₹ 5,00,000
Assume applicable Income Tax rate @ 30%	

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- (b) M/s. Zen Bridge Construction Limited obtained a loan of ₹ 64 crores to be utilized as under: **5**

(i) Construction of Hill link road in Kedarnath : (work was held up totally for a month during the year due to heavy rain which are common in the geographic region involved)	₹ 50 crores
(ii) Purchase of Equipment and Machineries	₹ 6 crores
(iii) Working Capital	₹ 4 crores
(iv) Purchase of Vehicles	₹ 1 crore
(v) Advances for tools / cranes etc.	₹ 1 crore
(vi) Purchase of Technical Know how	₹ 2 crores
(vii) Total Interest charged by the Bank for the year ending 31 st March, 2016	₹ 1.6 crores

Show the treatment of Interest according to Accounting Standard by M/s. Zen Bridge Construction Limited.

- (c) While preparing its final accounts for the year ended 31st March, 2016, a company made provision for bad debts @ 5% of its total debtors. In the last week of February, 2016 a debtor for ₹ 20 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In April, 2016 the debtor became a bankrupt. Can the company provide for the full loss arising out of insolvency of the debtor in the final accounts for the year ended 31st March, 2016 ? **5**

Comment with reference to relevant Accounting Standard.

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- (d) A Company with a turnover of ₹ 375 crores and an annual advertising budget of ₹ 3 crores had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 37.5 crores from the new product. The Company had debited to its Profit and Loss account the total expenditure of ₹ 3 crores incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the Company correct ?

2. X, Y and Z are in partnership sharing profits and losses in the ratio of 5 : 4 : 4. 16
The Balance Sheet of the firm as on 31st March, 2016 is as below :

Liabilities	₹	Assets	₹
X's Capital	60,000	Factory Building	96,640
Y's Capital	40,000	Plant and Machinery	65,100
Z's Capital	50,000	Trade Receivable	21,600
Y's Loan	18,000	Inventories	49,560
Trade Payable	66,000	Cash at Bank	1,100
	2,34,000		2,34,000

On Balance Sheet date, all the three partners have decided to dissolve their partnership. Since the realisation of assets was protracted, they decided to distribute amounts as and when feasible and for this purpose they appoint Z who was to get as his remuneration 1% of the value of the assets realised other than cash at bank and 10% of the amount distributed to the partners.

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Assets were realised piecemeal as under :

	₹
First instalment	74,600
Second instalment	69,301
Third instalment	40,000
Last instalment	28,000

Dissolution expenses were provided for estimated amount of ₹ 12,000

The creditors were settled finally for ₹ 63,600

You are required to prepare a statement showing distribution of cash amongst the partners by "Highest Relative Capital Method".

3. (a) A company had 40,000; 10% debentures of ₹ 100 each outstanding on 1st April, 2015 redeemable on 31st March, 2016. 10

On that day, sinking fund was ₹ 37,45,000 represented by 5,000 own debentures purchased at average price of ₹ 99 and 9% stocks of the face value of ₹ 33,00,000. The annual instalment was ₹ 1,42,000. On 31st March, 2016, the investments were realized at ₹ 98 and the debentures were redeemed.

Draw the following accounts for the year ending 31st March, 2016 :

- (i) 10% Debentures Account.
- (ii) Debenture Redemption Sinking Fund Account.

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- (b) The following is the Summarized Balance Sheet of M/s. Vriddhi Infra Ltd. as on 31st March, 2016: 6

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
1. <u>Shareholders Fund</u>		1. <u>Non-Current Assets</u>	
a) Share Capital :		a) Fixed (Tangible) Assets :	
1,00,000 Equity Shares of ₹ 10 each fully paid up	10,00,000	Land & Building	21,50,000
b) Reserve & Surplus :		Plant & Machinery	15,00,000
Securities Premium	3,00,000	b) Non-Current Investments	2,00,000
General Reserve	2,50,000	2. <u>Current Assets</u>	
Profit & Loss		a) Trade Receivables	5,50,000
Account Surplus	1,50,000	b) Inventories	1,80,000
		c) Cash and Cash Equivalents	40,000
2. <u>Non-Current Liabilities</u>			
Long Term Borrowings :			
10% Debentures (Secured by floating charge on all assets)	20,00,000		
Unsecured Loans	8,00,000		
3. <u>Current Liability & Provisions</u>			
Trade Payables	1,20,000		
Total	46,20,000		46,20,000

On 21st April, 2016 the Company announced the buy back of 25,000 of its equity shares @ ₹ 15 per share. For this purpose, it sold all its investment for ₹ 2.50 lakhs.

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On 25th April, 2016, the company achieved the target of buy back.

On 1st May, 2016 the company issued one fully paid up share of ₹ 10 each by way of bonus for every five equity shares held by the equity shareholders.

You are requested to pass necessary Journal Entries for the above transactions.

All necessary workings should form part of your answer.

4. The summarized Balance Sheet of M/s. X Limited as at 31st March, 2016 are as follows: 16

Equity & Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Shareholders Fund :</u>		<u>Non-Current Assets</u>	
Share Capital		Land & Building	6,50,000
50,000 equity shares of		<u>Current Assets</u>	
₹ 10 each fully paid	5,00,000	Sundry Current Assets	21,80,000
75,000; 10% Preference	7,50,000		
Shares of ₹ 10 fully paid up		Debenture issue expenses	
25,000 Equity Shares of ₹ 10		not written-off	10,000
each, ₹ 8 per share paid up	2,00,000		
Profit & Loss Account	(1,75,000)		
<u>Non-Current Liabilities:</u>			
13% Debentures	7,50,000		
Mortgage Loan	3,50,000		
<u>Current Liabilities:</u>			
Bank Overdraft	1,50,000		
Trade Creditors	1,90,000		
Income Tax Arrears			
(Assessment completed in			
February, 2016)	1,25,000		
	28,40,000		28,40,000

Mortgage loan was secured against Land and Building. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the Debenture Holders appointed a Receiver for the Debenture Holders. He bought the Land & Building to auction and realized ₹ 8,00,000. He also took charge of Sundry Assets of value of ₹ 11,80,000 and realized ₹ 10,00,000. Bank overdraft was secured by personal guarantee of the Directors of the company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Cost incurred by the receiver were ₹ 9,750 and by the Liquidator ₹ 15,000. The Receiver was not entitled to any remuneration but the Liquidator was to receive 2% fee on the value of assets realized by him. Preference Shareholders have not been paid Dividend for period after 31st March, 2014 and interest for the last half year was due to Debenture Holders. Rest of the Assets were realized at ₹ 7,50,000.

Prepare the Accounts to be submitted by the Receiver and Liquidator.

5. (a) From the following facts drawn from the records of Honest Bank for the year ended 31st March, 2015, prepare the accounts as mentioned below : 10

- (i) On 1st April, 2015 Bills for Collection were ₹ 28,00,000. During 2014-15, bills received for collection were ₹ 2,58,00,000. Bills collected were ₹ 1,88,00,000. Bills dishonoured and returned were ₹ 22,00,000.

Prepare Bills for Collection (Assets) Account and Bills for Collection (Liability) Account.

- (ii) On 1st April, 2014, Acceptance, Endorsement etc. not yet satisfied amounted to ₹ 58,00,000. During the year, Acceptances, Endorsements, Guarantees etc. were ₹ 1,76,00,000. The Bank honoured acceptances of ₹ 1,00,00,000 and a client paid ₹ 40,00,000 against guaranteed liabilities. The Bank paid ₹ 4,00,000 which clients failed to pay.

Prepare "Acceptances, Endorsements and Other Obligations Account" in the General Ledger.

- (iii) A loan of ₹ 24,00,000 advanced by the Bank on 30th August, 2014 @ 10% per annum, whose interest is payable half-yearly. The loan was outstanding as on 31st March, 2015. Nothing was paid either towards Principal or Interest of this loan. The security for the loan was 40,000 fully paid shares of ₹ 100 each. The shares were quoted on the stock exchange on 30th September, 2014 at ₹ 90 per share. Due to fluctuations, the price fell to ₹ 50 per share in January, 2015. On 31st March, 2015 the share price quoted on the stock exchange was ₹ 96 per share.

State giving reasons, whether the loan would be classified as secured or unsecured in the Balance Sheet of the Company as on 31st March, 2015.

- (iv) The following balances were taken from the Trial Balance as on 31st March, 2015.

	Dr (₹)	Cr (₹)
Interest & Discounts		3,92,00,000
Rebate for Bill Discounted		80,000
Bills Discounted & Purchased	16,00,000	

Proportionate discounts not yet earned for Bills to mature in 2014-15 were ₹ 56,000.

Prepare the following Accounts :

- Rebate on Bills Discounted Account
- Interest and Discount Account

(b) From the following information given by M/s. Long Live Insurance Co. Ltd., you are required to pass necessary Journal Entries (with narration and required working notes) relating to Unexpired Risk Reserve. Also show "Unexpired Risk Reserve Account for 2015-16" in columnar form.

- (i) On 31.03.15, it had reserve for unexpired risks amounting to ₹ 80 crores. Its composition was as under:
- (a) ₹ 30 crores in respect of Marine insurance business
 - (b) ₹ 40 crores in respect of Fire insurance business and
 - (c) ₹ 10 crores in respect of Miscellaneous insurance business
- (ii) M/s. Long Live Insurance Co. Ltd. reserves 100% of net premium income in respect of Marine insurance business and 50% of net premium income in respect of Fire and Miscellaneous income policies.
- (iii) During 2015-16, the following business was conducted :

	₹ in crore		
	Marine	Fire	Miscellaneous
Premium Collected from :			
(a) Insured in respect of Policies Issued	36	86	24
(b) Other Insurance Companies in respect of risks undertaken	14	10	8
Premium paid / payable to other insurance companies on business ceded	20	10	15

6. (a) M/s Shyam Udyog, a retail store, has two departments, Department X and Department Y for each of which stock account and memorandum 'mark-up' account are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark-up', which together make up the selling price of the goods and in the account the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark-up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental Mark-up Account. The rate of 'Mark up' for X Department is $33\frac{1}{3}\%$ of the cost and for Y Department it is 50% of the cost.

The following figures have been taken from the books for the year ended March 2016 :

	X Department Amount (₹)	Y Department Amount (₹)
Stock as on April 1 st at cost	3,15,000	5,58,000
Purchases	22,77,000	28,02,000
Sales	28,68,000	37,50,000

- (1) The stock of Department X on April 1, 2015 included goods the selling price of which had been marked down by ₹ 37,800. These goods were sold during the year at the reduced prices.
- (2) Certain stock of the value of ₹ 2,07,000 purchased from the Department X was later in the year transferred to the Department Y and sold for ₹ 3,10,500. As a result though cost of the goods is included in the Department X the sale proceeds have been credited to the Department Y.

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- (3) During the year 2015-16 to promote the goods, they were marked down as follows:

	Cost	Marked down
	(₹)	(₹)
Department X	1,68,000	10,800
Department Y	3,00,000	60,000

All the goods marked down, were sold except of Department Y of the value of ₹ 1,50,000 marked down by ₹ 30,000.

- (4) At the time of stock taking on 31st March, 2016, it was discovered that cloth of Department X of the cost of ₹ 11,700 was missing and it was decided that the amount be written-off.

You are required to prepare for both the departments for the year ended 31st March, 2016 :

- (a) The Memorandum Stock Account; and
- (b) The Memorandum Mark-up Account.

- (b) Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee @ ₹ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office. 8

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Following are the other details :

	Chennai H.O.	Salem B.O.
	Amount (₹)	Amount (₹)
Purchases:		
Refined Oil	27,50,000	
Ghee	48,28,000	
Direct Expenses	6,35,800	
Expenses paid by H.O.		76,800
Sales :		
Refined Oil	24,10,000	5,95,000
Ghee	38,40,500	14,50,000
Collection during the year (including Cash Sales)		20,15,000
Remittance by Branch to Head Office		19,50,000

Chennai H.O.		
Balance as on	01-04-2015	31-03-2016
	Amount (₹)	Amount (₹)
Stock :		
Refined Oil	44,000	8,90,000
Ghee	10,65,000	15,70,000
Building	5,10,800	7,14,780
Furniture & Fixtures	88,600	79,740

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Salem Branch Office		
Balance as on	01-04-2015	31-03-2016
	Amount (₹)	Amount (₹)
Stock :		
Refined Oil	22,500	19,500
Ghee	40,000	90,000
Sundry Debtors	1,80,000	?
Cash in Hand	25,690	?
Furniture & Fixtures	23,800	21,420

Additional information :

- (i) Addition to Building on 01-04-2015 ₹ 2,41,600 by H.O.
- (ii) Rate of depreciation : Furniture & Fixtures @ 10% and Building @5% (already adjusted in the above figure)
- (iii) The Branch Manager is entitled to 10% commission on overall organisational profits after charging such commission.
- (iv) The General Manager is entitled to a salary of ₹ 20,000 per month.
- (v) General expenses incurred by Head Office is ₹ 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & Loss Account (excluding branch transactions) for the year ended 31st March, 2016.

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

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=16

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(a) With reference to AS 11, define the following :

(i) Integral Foreign Operation.

(ii) Non-Integral Foreign Operation.

(b) M/s. XYZ Ltd. is in a dispute with a competitor company. The dispute is regarding alleged infringement of Copyrights. The competitor has filed a suit in the court of law seeking damages of ₹ 200 lacs.

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The Directors are of the view that the claim can be successfully resisted by the Company.

How would the matter be dealt in the annual accounts of the Company in the light of As-29 ? Explain in brief giving reasons for your answer.

(c) Explain in brief, the alternative measurement bases, for determining the value at which an element can be recognized in the Balance Sheet or Statement of Profit and Loss.

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(d) Write short notes on Designated Partner in a Limited Liability Partnership and what are their liabilities.

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- (e) From the following particulars of M/s. Tsunami Marine Insurance Limited for the year ending 31st March, 2016, find out the **4**

(i) Net Premium earned

(ii) Net Claims incurred

	Direct Business	Re-Insurance
	₹ in lakhs	₹ in lakhs
PREMIUM:		
Received	4,400	376
Receivable -01.04.2015	220	18
Receivable -01.04.2016	189	16
Paid	305	
Payable – 01.04.2015		14
Payable – 01.04.2016		9
CLAIMS :		
Paid	3,450	277
Payable – 01.04.2015	45	8
Payable – 01.04.2016	48	6
Received		101
Receivable – 01.04.2015		20
Receivable – 01.04.2016		19

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