

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

MAY 2018

Roll No.

Total No. of Questions – 7

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 question(s) answered shall be ignored.

Wherever appropriate, suitable assumption/s should be made by the candidate and it must be disclosed as a separate note forming part of the main answer.

Working notes should form part of the respective answers.

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1. Answer the following Question :

- (a) A Ltd. manufactures engineering goods, provides after sales warranty for 2 years to its customers. Based on past experience, the company has been following the policy for making provision for warranties on the invoice amount, on the remaining balance warranty period :

Less than 1 year : 2 % provision

More than 1 year : 3 % provision

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The company has raised invoices as under :

Invoice date	Amount (₹)
19 th January, 2016	80,000
29 th January, 2017	50,000
15 th October, 2017	1,80,000

Calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2017 and 31st March, 2018. Also compute amount to be debited to profit and loss Account for the year ended 31st March, 2018.

- (b) Rutu Builders Limited has borrowed a sum of US \$ 20,00,000 at the beginning of Financial year 2017-18 for its residential project at LIBOR +3 %. The interest is payable at the end of the financial year. At the time of availment, exchange rate was ₹ 61 per US \$ and the rate as on 31st March, 2018 was ₹ 65 per US \$. If Rutu Builders Limited had borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been @ 10.50%.

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Compute Borrowing cost and exchange difference for the year ending 31st March, 2018 as per Accounting Standards 16. (Applicable LIBOR is 1%).

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- (c) Ram Ltd. sold a machine having WDV of ₹ 125 lakhs to Shyam Ltd. for ₹ 150 lakhs and the same machine was leased back by Shyam Ltd. to X Ltd. under Operating lease system :

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Comment according to relevant Accounting Standard if :

- (i) Sale price of ₹ 150 lakhs is equal to fair value.
- (ii) Fair value is ₹ 125 lakhs and Sale price is ₹ 112.50 lakhs.
- (iii) Fair value is ₹ 137.50 lakhs and Sale price is ₹ 155 lakhs.
- (iv) Fair value is ₹ 112.50 lakhs and Sale price is ₹ 120 lakhs.
- (d) A company acquired patent right for ₹ 1200 lakhs. The product life cycle has been estimated to be 5 years and the amortization was decided in the ratio of estimated future cash flows which are as under :

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Year	1	2	3	4	5
Estimated future cash flows (₹ in lakhs)	600	600	600	300	300

After 3rd year, it was ascertained that the patent would have an estimated balance future life of 3 years and the estimated cash flow after 5th year is expected to be ₹ 150 lakhs. Determine the amortization under Accounting Standard 26.

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2. Sunil and Sachin carrying on business in partnership sharing profit and losses equally, wished to dissolve the firm and sell the business to Sargam Ltd. on 31-3-2018, when the firm's position was as follows :

Liabilities	₹	Assets	₹
Sunil's Capital	7,50,000	Land and Building	5,00,000
Sachin's Capital	5,00,000	Furniture	2,00,000
Sundry Creditors	3,00,000	Stock	5,00,000
		Debtors	3,30,000
		Cash	20,000
	15,50,000		15,50,000

The arrangement with Sargam Ltd. was as follows :

- Land and Building was purchased at 25% more than the book value.
- Furniture and stock were purchased at book values less 20%.
- The goodwill of the firm was valued at ₹ 2,00,000.
- The firm's debtors, cash and creditors were not to be taken over, but Sargam Ltd. agreed to collect the book debts of the firm and discharge the creditors of the firm's as an agent, for which services, the company was to be paid 7.5% on all collections from the firm's debtors and 4.5% on cash paid to firm's creditors.

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- (v) The purchase price was to be discharged by the company in fully paid equity shares of ₹ 15 each at a premium of ₹ 5 per share.
- (vi) The partners distributed the company's shares between themselves in their final claim ratio.

The company collected all the amounts from debtors. The creditors were paid off less by ₹ 10,000, allowed by them as discount. The company paid the balance due to the vendors in cash.

Prepare the Realisation account, the Capital Accounts of the partners and the cash account in the books of partnership firm.

3. (a) Z Limited came up with an issue of 60,00,000 equity shares of ₹ 10 each at par. 15,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters D, E and F – equally with firm underwriting of 1,40,000 shares each. Subscriptions totalled 38,91,000 shares including the marked forms which were :

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D 12,75,000 shares

E 13,50,000 shares

F 10,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were ₹ 2.50 and ₹ 2.00 respectively. The agreed commission was 5%.

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Pass Summary journal entries for –

- (a) The allotment of shares to the underwriters
- (b) The commission due to each of them and
- (c) The net cash paid and or received.

Note : Unmarked applications are to be credited to underwriters equally. Benefit of firm underwriting is given to individual underwriter.

- (b) The following balances appeared in the books of a company as on December 31st, 2017, 6% Mortgage 25,000 Debentures of ₹ 100 each. Debenture Redemption Reserve. (for redemption of debentures). ₹ 26,05,000.

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The following were the investments :

- (i) ₹ 13,20,000, 4% Government Loan purchased at par (face value of ₹ 100 each)
- (ii) ₹ 14,00,000, 3-½% Government paper purchased for ₹ 13,55,000 (face value of ₹ 100 each)

The interest on debentures had been paid upto December 31st, 2017.

On February 28th, 2018, the investments were sold at ₹ 87 and ₹ 90 respectively and the debentures were paid off at ₹ 101 together with accrued interest.

Write up the ledger accounts concerned. The Debenture Redemption Reserve is non-cumulative.

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4. Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each.

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On 31st March, 2018 the respective Summarised Balance Sheets of Sun and Neptune were as follow :

	Sun (₹)	Neptune (₹)
Fixed Assets	6,35,000	3,65,000
Current Assets	3,27,000	1,67,750
	9,62,000	5,32,750
Less : Current Liabilities	(5,97,000)	(1,80,250)
Representing Capital	3,65,000	3,52,500

Additional Information :

- (a) Revalued figures of Fixed and Current Assets were as follows :

	Sun (₹)	Neptune (₹)
Fixed Assets	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

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- (b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

The purchase consideration is satisfied by issue of the following shares and debentures.

- (i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	Sun (₹)	Neptune (₹)
2016 Profit	4,49,576	2,73,900
2017 (Loss)/Profit	(2,500)	3,42,100
2018 Profit	3,77,924	3,59,000

- (ii) 15% debentures in Jupiter Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st March, 2018 after revaluation of assets.

You are required to :

- (1) Compute the amount of debentures and shares to be issued to Sun and Neptune.
- (2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

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5. (a) The following are the figures extracted from the books of National Bank Limited as on 31-3-2018.

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	₹
Interest and discount received	59,29,180
Interest paid on deposits	32,59,920
Issued and subscribed capital	16,00,000
Salaries and allowances	3,20,000
Directors fee and allowances	48,000
Rent and taxes paid	1,44,000
Postage and telegrams	96,460
Statutory reserve fund	12,80,000
Commission, Exchange and Brokerage	3,04,000
Rent received	1,04,000
Profit on sales of investments	3,20,000
Depreciation on bank's properties	48,000
Statutory expenses	44,000
Preliminary expenses	40,000
Auditor's fee	28,000

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The following further information is given :

- (i) A customer to whom a sum of ₹ 16 lakhs has been advanced has become insolvent and it is expected only 40% can be recovered from his estate.
- (ii) There were also other debts for which a provision of ₹ 2,10,000 was found necessary by the auditors.
- (iii) Rebate on bills discounted on 31-3-2017 was ₹ 19,000 and on 31-3-2018 was ₹ 25,000.
- (iv) Preliminary expenses are to be fully written off during the year.
- (v) Provide ₹ 9,00,000 for Income-tax.
- (vi) Profit and loss account opening balance was Nil as on 31-3-2017.
- (vii) The directors desire to declare 10% dividend after transfer of 25% of the year's profit to statutory reserve.

You are required to prepare profit & loss Account of the National Bank Ltd. with all the necessary schedules for the year ended 31st March 2018. Ignore figures for the Previous year and corporate dividend tax.

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- (b) 'On 31st March, 2018 the books of Priya Insurance Company Limited, contained the following particulars in respect of fire insurance :

Particulars	Amount (₹)
Reserve for unexpired risks on 31 st March, 2017	10,00,000
Additional Reserve for unexpired risks on 31 st March, 2017	2,00,000
Premiums	22,40,000
Claims paid	12,80,000
Estimated liability in respect of outstanding claims :	
On 31 st March, 2017	1,30,000
On 31 st March, 2018	1,80,000
Expenses of Management (including ₹ 60,000 legal expenses paid in connection with the claims)	5,60,000
Interest and Dividend (Gross)	1,28,500
Income tax on the above	13,040
Profit on sale of investments	22,000
Commission paid	3,04,000

On 31st March 2018 provide ₹ 11,20,000 as unexpired risk reserve and ₹ 1,50,000 as additional reserve.

You are required to prepare the fire Insurance Revenue account as per the regulations of IRDA, for the year ended 31st March 2018.

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6. (a) M/s P have 2 Departments – X and Y. From the following information, prepare departmental Trading A/c and General Profit & Loss Account for the year ended on 31st March 2018.

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	Amount (₹)	
	Department X	Department Y
Opening stock as on 01-04-2017 (at cost)	2,45,000	2,43,000
Purchases	13,72,000	13,41,000
Carriage Inward	21,000	40,500
Wages	1,89,000	1,62,000
Sales	20,02,000	20,70,000
<u>Purchased Goods Transferred :</u>		
By Department Y to X	2,25,000	
By Department X to Y		1,26,000
<u>Finished Goods Transferred :</u>		
By Department Y to X	6,75,000	
By Department X to Y		6,12,500
<u>Return of Finished Goods :</u>		
By Department Y to X	1,57,500	
By Department X to Y		1,44,000
<u>Closing Stock :</u>		
Purchased Goods	84,000	1,35,000
Finished Goods	3,57,000	2,79,000

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

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- (b) M/s Marena Limited, Delhi has a branch at Bangalore to which office goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch Expenses are paid direct from head office and the Branch has to remit all cash received into the Head Office Bank Account.

From the following details, relating to calendar year 2017, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns to the Head Office.

	₹
Goods received from Head Office at invoice price	45,00,000
Returns to Heads Office at invoice price	90,000
Stock at Bangalore as on 1 st January, 2017	4,50,000
Sales during the year – Cash	15,00,000
Credit	27,00,000
Sundry Debtors at Bangalore as on 1 st January, 2017	5,40,000
Cash received from Debtors	24,00,000
Discount allowed to Debtors	45,000
Bad Debts in the year	30,000
Sales returns at Bangalore Branch	60,000
Rent, Rates and Taxes at Branch	1,35,000
Salaries, Wages and Bonus at Branch	4,50,000
Office Expenses	45,000
Stock at Branch on 31 st December, 2017 at invoice price	9,00,000

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

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=16

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(a) Shankar started a business on 1st April, 2017 with ₹ 12,00,000 represented by 60,000 units of ₹ 20 each. During the financial year ending on 31st March, 2018, he sold the entire stock for ₹ 30 each. In order to maintain the capital intact. Calculate the maximum amount, which can be withdrawn by Shankar in the year 2017-18 if Financial Capital is maintained at Historical cost.

(b) A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential creditors and 3% on the payment made to unsecured creditors. The assets were realized for ₹ 50,00,000 against which payment was made as follows :

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Liquidation	₹ 50,000
Secured Creditors	₹ 20,00,000
Preferential Creditors	₹ 1,50,000
The amount due to Unsecured creditors was	₹ 30,00,000.

You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

(c) Write short notes on the types of re-insurance contracts.

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(d)	Outstanding Balance	₹ 12 lakhs
	ECGC Cover	50%
	Period for which the advance has remained doubtful	More than 3 years remained doubtful (as on 31 st March, 2018)
	Value of security held (realisable value only 70%)	₹ 5.00 lakhs

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You are required to calculate provisions as per applicable rules.

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(e) Differentiate on ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following :

- (1) Applicable Law
 - (2) Number of Partners
 - (3) Ownership of Assets
 - (4) Liability of Partners/Members
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