

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

JUL 2021

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.

Attempt any five questions out of the remaining six questions.

Working notes should form part of the respective answers.

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1. (a) H Ltd. began the construction of a new building on 1st April 2020. It obtained a special loan of ₹ 6,00,000 on 1st April 2020 at an interest of 12% to finance the construction of the building. **5**

The company's other outstanding two non-specific loans on 1st April, 2020 were as follows :

Amount in ₹	Rate of Interest
30,00,000	14%
54,00,000	16%

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The expenditure incurred on the building project was as per detail given below.

	Amount in ₹
1 st May, 2020	12,00,000
1 st July, 2020	15,00,000
1 st October, 2020	27,00,000
1 st March, 2021	7,20,000

The building was completed by 31st March 2021.

Following the provisions of Accounting Standard 16, you are required to calculate the amount of interest to be capitalized and also give one Journal Entry for capitalizing the cost and borrowing cost in respect of the building.

- (b) Light Limited leased a machine to Thunder Limited on the following terms :

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		(₹ In Lakhs)
(i)	Fair value of the machine	72
(ii)	Lease term	5 years
(iii)	Lease rental per annum	12
(iv)	Guaranteed residual value	2.40
(v)	Expected residual value	4.50
(vi)	Internal rate of return	15%

Discounted rates for 1st year to 5th year are 0.8696, 0.7561, 0.6575, 0.5718 and 0.4972 respectively.

You are required to calculate Unearned Finance Income.

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- (c) Sunrise Ltd. acquired a copyright on 1st April, 2017 for ₹ 364 Lakhs. 5

The copyright was available for use from 1st April, 2017 itself. The company amortises the copyright over a period of 13 years on straight line basis. Accordingly Sunrise Ltd. is showing the copyright at ₹ 252 Lakhs as on 1st April, 2021.

You are required to comment on the accounting treatment of copyright with reference to the requirement of relevant Accounting Standard.

- (d) A Company dealing in software provides after sales warranty for 2 years to its customer. Based on past experience, the company has been following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period : 5

Less than 1 year : 3% provision

More than 1 year : 4% provision

The company has raised invoices as under :

Invoice Date	Amount (₹)
19 th January, 2019	1,20,000
29 th January, 2020	75,000
15 th October, 2020	2,70,000

You are required to calculate the provision to be made for warranty under Accounting Standard 29 as at 31st March, 2020 and 31st March, 2021. Also compute the amount to be debited to Profit and Loss Account for the year ended 31st March, 2021.

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2. Ram, Shyam and Mohan are partners sharing profits and losses in the ratio of 5:3:2 respectively. The Trial Balance of their firm as at 31st March, 2021 was as follows :

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Particulars	₹	₹
Furniture at Cost	3,00,000	
Inventory	2,06,100	
Trade receivables	1,86,000	
Trade payables		2,54,100
Capital A/c:		
Ram		2,04,000
Shyam		1,35,000
Mohan		69,000
Drawing A/c:		
Ram	75,000	
Shyam	69,000	
Mohan	51,000	
Depreciation on furniture		1,20,000
Profits for the year ended 31 st March, 2021		3,72,900
Cash at Bank	2,67,900	
	11,55,000	11,55,000

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Interest on Capital Accounts at 10% p.a. on the amount standing to the credit of Partners' Capital Account at the beginning of the year, was not provided before preparing the above Trial Balance. On the above date, they formed a new company in the name of 'RSM Private Limited' with an Authorized Share Capital of 3,00,000 in shares of ₹10 each to be divided in different classes to take over the business of Partnership firm.

You are provided with the following information :

1. Furniture is to be transferred at ₹ 2,10,000.
2. Shares in the Company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their shareholdings alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
3. Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to ₹ 1,50,000. For this purpose, sufficient profits of the year are to be retained in profit-sharing ratio.
4. Assets and liabilities except furniture and bank balance, are to be transferred at their book values as on the above date.

You are required to prepare :

- (a) Statement showing the workings of the Number of Shares of each class to be issued by the company to each partner.
- (b) Capital Accounts showing all adjustments required to dissolve the Partnership.
- (c) Balance Sheet of the Company immediately after acquiring the business of the partnership and issuing of Shares.

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3. (a) Jay Ltd. offered 45 Lakhs equity shares of ₹ 10 each at par to the public. The issue was underwritten equally by three underwriters A, B and C. The firm underwriting by the underwriters was for 1,50,000 shares each. Total subscriptions were for 38,91,000 shares out of which marked forms were as follows :

A : 12,75,000 Shares, B : 13,50,000 Shares, C : 10,50,000 Shares.

Benefit of firm underwriting was given to underwriters and unmarked applications were credited to the underwriters equally. The underwriters applied for number of shares covered by firm underwriting.

The amount payable on application was ₹ 4 and on allotment ₹ 3 per share. The underwriting commission payable to underwriters was agreed at 3%.

You are required to give Journal Entries in the books of Jay Ltd. for allotment of shares to underwriters, commission due to each of the underwriters and the net cash paid to or received from the underwriters.

- (b) X Limited grants 7,500 options to its employees on 1.04.2017 at ₹ 80 when the market price was ₹ 134. The vesting period is 3 years. The maximum exercise period is one year. 7,000 options were exercised on 31.03.2021, the remaining 500 options lapsed, the face value of equity share is ₹10 per share.

You are required to pass Journal Entries (with narration) for the above transactions.

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4. The Summarized Balance Sheets of Sun Ltd. and Light Ltd. as on 31st March, 2021 are given below. 16

	Sun Ltd. (₹)	Light Ltd. (₹)
I. <u>Liabilities</u>		
Equity Share Capital (Divided into Shares of ₹ 5 each fully paid up)	1,40,00,000	84,00,000
General Reserve	28,00,000	16,04,000
Trade Payables	42,00,000	25,96,000
Total	2,10,00,000	1,26,00,000
II. <u>Assets</u>		
Sundry Assets	2,10,00,000	1,26,00,000
Total	2,10,00,000	1,26,00,000

The following further information is also given :

- Sun Ltd. absorbed Light Ltd. on the basis of intrinsic value of shares of Sun Ltd.
- The Purchase Consideration is discharged in fully paid up shares.
- Sun Ltd. owed a sum of ₹ 7,00,000 to Light Ltd.
- Inventory of Sun Ltd. included ₹ 8,40,000 supplied by Light Ltd. at cost plus 25%.
- Sundry Assets of Light Ltd. included Land of ₹ 28,00,000 the market value of which is ₹ 35,00,000.

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You are required to :

- (a) Give journal entries in the books of both Sun Ltd., and Light Ltd., if journal entries are passed at intrinsic value of shares of Sun Ltd.
- (b) Calculate the intrinsic value of shares of Sun Ltd., and
- (c) Prepare Balance Sheet of Sun Ltd. after absorption.

5. (a) From the following information given by Well Worth Insurance Co. Ltd., you are required to pass necessary Journal entries (with narration and required working notes) relating to Unexpired Risk Reserve.

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- (i) On 31.03.20 it had reserve for unexpired risks amounting to ₹ 120 crores. Its composition was as under :
 - (a) ₹ 45 crores in respect of Marine insurance business
 - (b) ₹ 60 crores in respect of Fire insurance business and
 - (c) ₹ 15 crores in respect of Miscellaneous insurance business
- (ii) Well Worth 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 2020-21, the following business was conducted :

	(₹ in crore)		
	Marine	Fire	Miscellaneous
Premium collected from:			
(a) Insured in respect of Policies issued	54	129	36
(b) Other Insurance Companies in respect of risks undertaken	21	15	12
Premium paid/payable to other insurance Companies on Business ceded.	30	15	24

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(b) The following figures are available from the books of Prudent Bank 10

Ltd. for the year ended 31st March, 2021.

	Amount in ₹
Interest and Discounts Received	1,52,00,640
Interest Paid on Deposits	91,81,440
Salaries and Allowances	10,00,000
Directors' Fees and Allowances	1,40,000
Rent and Taxes Paid	4,00,000
Postage	2,61,360
Statutory Reserve Fund	32,00,000
Commission, Exchange and Brokerage Earned	7,60,000
Rent Received	2,88,000
Profit on sale of Investments	9,03,200
Depreciation on Assets	1,60,000
Statutory Expenses	1,52,000
Preliminary Expenses	1,20,000
Auditors' Fees	48,000

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The following further information is also available :

- (i) Issued and Subscribed Capital of the Bank is ₹ 40,00,000
- (ii) Preliminary Expenses to be fully written off during the year.
- (iii) Rebate on Bills Discounted was ₹ 60,000 as on 31st March, 2020 and was ₹ 80,000 on 31st March, 2021.
- (iv) The Directors wish to declare a dividend of 15%.
- (v) Income Tax of ₹ 8,00,000 is to be provided.
- (vi) Mr. G, a customer of the bank, who had taken an advance of ₹ 40,00,000 from the bank became insolvent and only 25% was expected to be recovered from his estate.
- (vii) A provision of ₹ 8,00,000 was also necessary on other debts.
- (viii) There was no opening balance of Profit and Loss Account.

You are required to prepare the Profit and Loss Account and the Schedules of Profit and Loss Account of Prudent Bank for the year ended 31st March, 2021. Also show how the Profit and Loss Account will appear in the Balance Sheet.

6. (a) You are required to pass necessary Journal entries in the books of an Independent Branch of a Company, wherever required, to rectify or adjust the following :

- (i) Expenses of ₹ 5,000 allocated to the Branch by Head Office but not recorded in the Branch books.

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- (ii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 3,000.
- (iii) Branch paid ₹ 4,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.
- (iv) Branch incurred travelling expenses of ₹ 6,000 on behalf of other Branches, but not recorded in the books of Branch.
- (v) A remittance of ₹ 1,00,000 sent by the Branch has not been received by Head Office on the date of reconciliation of Accounts.
- (vi) Head Office allocates ₹ 80,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.
- (vii) Head Office collected ₹ 50,000 directly from a Branch Customer. The intimation of the fact has been received by the Branch only now.
- (viii) Goods dispatched by the Head office amounting to ₹ 20,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.
- (b) P Ltd. has two Departments X and Y. From the following particulars you are required to prepare Departmental Trading Account and General Trading and P & L Account for the year ending 31st March, 2021.

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Particulars	Department X (₹)	Department Y (₹)
Opening stock (at Cost)	70,000	54,000
Purchase	2,14,000	1,66,000
Carriage inwards	6,000	6,000
Wages	21,000	24,450
Sales	3,10,000	2,54,000
Purchased goods transferred by Dept. Y to Dept. X	30,000	—
Purchased goods transferred by Dept. X to Dept. Y	—	24,000
Finished goods transferred by Dept. Y to Dept. X	80,000	—
Finished goods transferred by Dept. X to Dept. Y	—	1,00,000
Return of Finished Goods by Dept. Y to Dept. X	25,000	—
Return of Finished Goods by Dept. X to Dept. Y	—	17,000
Closing Stock of Purchased Goods	12,000	15,000
Closing Stock of Finished Goods	60,000	35,000

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

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Attempt any **four** questions.

- (a) Briefly explain the following Qualitative characteristics of Financial Statements. **4**

- (i) Relevance (ii) Reliability
(iii) Comparability (iv) Faithful Representation

- (b) Differentiate an ordinary partnership firm with an LLP (Limited Liability Partnership) in respect of the following : **4**

- (i) Applicable Law (ii) Number of Partners
(iii) Ownership of Assets (iv) Liability of Partners/Members

- (c) The Liquidation of Beta Ltd. commenced on 24th April, 2021. Certain creditors could not receive payments out of realization of assets and out of contributions from 'A' List contributories. **4**

Given below are details of certain transfers of shares that took place in 2020 and 2021.

Shareholders	Number of Shares Transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding (₹)
P	6,000	05/04/2020	16,000
Q	4,000	01/06/2020	24,000
R	6,000	10/08/2020	30,000
S	1,200	15/12/2020	32,000
T	800	15/01/2021	38,000

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The following information should be taken into consideration :

- (i) All the shares were of ₹ 10 each, of which ₹ 7 paid up.
- (ii) Expenses of liquidation and remuneration to liquidators have to be ignored.

You are required to calculate the amount to be realized from the various shareholders listed above.

- (d) Fire Insurance division of Zed Insurance Company provides the following information. You are required to show the amount of net claim paid as it would appear in the Revenue Account for the year ended 31st March, 2021.

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	Direct Business	Re-insurance
	₹	₹
Claim paid during the year	70,60,000	16,40,000
Claim received		6,40,000
Claim payable		
1 st April, 2020	16,46,000	1,18,000
31 st March, 2021	17,50,000	1,76,000
Claim Receivable :		
1 st April, 2020	—	1,70,000
31 st March, 2021	—	2,84,000
Expenses of Management	6,90,000	
(Including ₹ 76,000 Surveyor's fee and ₹ 84,000 Legal expenses for settlement of claims)		

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- (e) Department D sells goods to Department E at a profit of 50% on cost and to Department F at 20% on cost. Department E sells goods to D and F at a profit of 25% and 15% respectively on sales. Department F charges 30% and 40% profit on cost to Department D and E respectively.

Stock lying at different departments at the end of the year is as under :

	Department D	Department E	Department F
	₹	₹	₹
Transfer from Department D	—	60,000	48,000
Transfer from Department E	50,000	—	80,000
Transfer from Department F	52,000	56,000	—

Calculate the Unrealized Profit of each Department and also total Unrealized Profit.

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