

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

NOV 2020

Roll No.

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in 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.

Questions No. 1 is compulsory.

Attempt any **five** questions out of the remaining **six** questions.

Working notes should form part of the answers.

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1. (a) Expert Limited issued 12% secured debentures of ₹ 100 lakhs on 01.06.2019. Money raised from debentures to be utilized as under : **5**

Intended Purpose	Amount ₹ in lakhs
Construction of factory building	40
Working Capital	30
Purchase of Machinery	15
Purchase of Furniture	2
Purchase of truck	13

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Additional Information :

- (i) Interest on debentures for the Financial Year 2019-2020 was paid by the Company.
- (ii) During the year, the company invested idle fund of ₹ 5 lakhs (out of the money raised from debentures) in Bank's fixed deposit and earned interest of ₹ 50,000.
- (iii) In March, 2020 construction of factory building was not completed (it is expected that it will take another 6 months).
- (iv) In March 2020, Machinery was installed and ready for its intended use.
- (v) Furniture was put to use at the end of March 2020.
- (vi) Truck is going to be received in April, 2020.

You are required to show the treatment of interest as per AS16 in respect of borrowing cost for the year ended 31st March, 2020 in the Books of Expert Limited.

- (b) What do you mean by 'Weighted Average number of Equity Shares outstanding during the period' and why is it to be calculated ?

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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 :

- (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 lieu of interest or principal on other financial instruments.

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- (iv) Equity shares issued in exchange for the settlement of a liability of the enterprise.
- (v) Equity Shares issued as consideration for the acquisition of an assets other than cash.
- (vi) Equity Shares issued for the rendering of services to the enterprise.

(c) (1) Zinga Limited received a 20% Subsidy on ₹ 100 lakhs for investment in designated backward area during 2016-17. The Subsidy received was credited to General Reserve. During 2019-2020, the company paid dividend out of the amount of Subsidy Received for ₹ 10 lakhs. Is the above treatment done for Subsidy received and Dividend paid is correct ? If not, give correct treatment.

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(2) Singha Limited received a specific grant of ₹ 90 lakhs for acquiring a plant of ₹ 250 lakhs (having useful life of 10 years) during 2016-17. The grant received was credited to deferred income in the Balance Sheet. During 2019-2020, the company could not comply some condition laid down for the grant for plant, it had to refund the whole grant for plant to the Government. Balance in the deferred income on that date was ₹ 63 lakhs and written down value of plant was ₹ 175 lakhs.

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You are required to state :

- (i) What should be the treatment of the refund of grant in 2019-2020 ?
- (ii) What would be the effect on cost of the fixed asset ?
- (iii) What amount of depreciation should be charged during the Financial year 2019-2020 ?

(d) State with reason, as per AS-4, How the following events would be dealt with in the financial statements of Nisha Limited for the year ended 31st March, 2020. Date of Board meeting for approving the accounts is 25th April, 2020 :

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- (i) The Board of the directors of the Company has proposed dividend of ₹ 20 lakhs on 4th April, 2020.
- (ii) An earthquake destroyed a major warehouse of the Company on April 20, 2020.
- (iii) The Company has filed a legal suit against one debtor from whom ₹ 25 lakh is recoverable as on 31.3.2020. As per legal opinion received by the counsel on 15th April, 2020, the chances of recovery by way of legal suit are not good.
- (iv) The cashier of the Company embezzled cash of ₹ 9 lakhs fraudulently in January, 2020 and returned back ₹ 5 lakhs in February, 2020. The same was detected on 5th April, 2020.

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2. U and V were in partnership with sharing of profit and loss equally. The 16
firm's Balance sheet as at 31/12/2019 (for 9 months) was :

Liabilities	₹	Assets	₹
Capital Accounts :		Plant	1,85,000
U 1,50,000		Building	1,00,000
V <u>1,80,000</u>	3,30,000	Debtors	85,000
Sundry Creditors	90,000	Stock	56,000
Bank Overdraft	83,000	Profit & Loss A/c	60,000
		Drawings Account	
		U 8,000	
		V <u>9,000</u>	17,000
Total	5,03,000	Total	5,03,000

The operations of the business were carried on till 31/03/2020. U and V both withdrew in equal amount half the amount of profit made during the current period of three months. after charging depreciation of ₹ 5,000 on plant and after writing off 5% of building.

During the current period of three months, creditors were reduced by ₹ 50,000 and bank overdraft by ₹ 50,000.

The stock was valued at ₹ 24,000 and debtors at ₹ 40,500 on 31st March, 2020. The other items remained the same as at 31/12/2019.

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On 31/03/2020, the firm sold its business to UV Limited. The value of goodwill was estimated at ₹ 1,84,000 and the remaining assets were valued on the basis of the balance sheet as on 31/03/2020 except building and stock, which were valued as below :

	₹
Building	1,20,000
Stock	36,000

UV Limited paid the purchase consideration in equity shares of ₹ 10 each.

You are required to prepare: (with necessary working notes)

- Balance sheet of the firm as at 31/03/2020.
- Realisation account and,
- Partners' capital accounts showing the final settlement between them.

3. (a) PAY Limited furnishes you with the following summarized Balance Sheet as at 31st March, 2020 :

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	(₹ in Lakhs)	
Liabilities		
Share Capital :		
Authorised		<u>300</u>
Issued :		
11% Redeemable preference shares of ₹ 100 each fully paid	125	
Equity shares of ₹ 10 each fully paid	<u>175</u>	300

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Reserves and surplus:		
Capital reserve	35	
Securities premium	155	
Revenue reserves	460	
Profit and loss account	<u>50</u>	650
Current liabilities and provisions		<u>50</u>
		<u>1000</u>
Assets		
Fixed assets : cost	100	
Less: Accumulated depreciation	<u>(90)</u>	10
Non-current investments at cost (Market value ₹ 400 Lakhs)		200
Current assets		<u>790</u>
		<u>1000</u>

- (i) The company redeemed preference shares at a premium of 4% on 1st April, 2020.
- (ii) It also bought back 2.5 lakhs equity shares of ₹ 10 each at ₹ 40 per share. The payments for the above were made out of the bank balances, which appeared as a part of current assets.

You are asked to :

- (1) Pass journal entries to record the above.
- (2) Prepare balance sheet as at 01.04.2020.

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- (b) Purvi Limited issues 2,00,000 equity shares of ₹ 10 each at par. The entire issue is underwritten as follows : 6

Underwriter Applications	No. of shares Underwritten	Firm Underwritten	Marked, Including firm Underwriting
A	1,20,000	16,000	36,000
B	50,000	6,000	46,000
C	30,000	20,000	30,000

Total number of shares applied for were 1,42,000. Ascertain the liability of underwriters in Number of Shares.

- (i) If Firm Underwriting treated as Marked.
(ii) If Firm Underwriting treated as Unmarked.

4. Black Limited and White Limited have been carrying their business independently from 01/04/2018. Because of synergy in business, they amalgamated on and from 1st April, 2020 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 are as follows : 16

Liabilities	Black Ltd. (₹)	White Ltd. (₹)
Share Capital :		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000

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Profit & Loss Account		
Opening Balance	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payable	3,10,000	1,20,000
	30,25,000	27,45,000
Assets	Black Ltd.	White Ltd.
	(₹)	(₹)
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivable	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000
	30,25,000	27,45,000

Additional Information :

- (i) The authorised capital of the new company will be ₹ 50,00,000 divided into 2,00,000 equity shares of ₹ 25 each.
- (ii) Trade payable of Black Limited includes ₹ 15,000 due to White Limited and trade receivable of White Limited shows ₹ 15,000 receivable from Black Limited.
- (iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd.	White Ltd.
	(₹)	(₹)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

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(iv) The purchase consideration is to be discharged as under:

- (a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.
- (b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).
- (c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

5. (a) XYZ District Co-operative Bank has Tier I and Tier II capital funds as ₹ 91,930 crores & ₹ 185 crores respectively and its assets details are as below :

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Assets	Amount in ₹ crore
Cash Balance with RBI	540
Balances with other Banks	1,940
Claims on banks	2,655
Other Investments	75,490
Loans and Advances:	
(i) Guaranteed by public sector undertakings of Central Govt	75,185
(ii) Others	6,25,162
Premises, furniture and fixtures	15,750
Other Assets	22,135

Besides the above bank has Acceptances, endorsements and letters of credit of ₹ 4,87,259 crores as off-Balance Sheet Item.

You are required to calculate the Capital Adequacy Ratio for the Bank.

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- (b) Lifeline General Insurance Company provides the following information for the year ended 31st March, 2020 :

Particulars	Related to Direct Business (₹)	Related to Reinsurance Business (₹)
Premium received	95,29,400	12,25,300
Premium paid during the year	—	6,99,000
Claims received	—	4,95,000
Claims paid during the year	59,76,000	7,18,000
Claims payable:		
31 st March, 2020	8,08,900	80,000
1 st April, 2019	7,89,200	1,05,100
Claims receivable:		
1 st April, 2019	—	65,000
31 st March, 2020	—	1,51,000
Expenses of Management	3,85,050	—
Commission :		
On Insurance accepted	2,05,000	25,000
On Insurance ceded	—	28,000

The following additional information are also available:

- Expenses of Management include ₹ 56,000 Surveyor's fees and ₹ 85,000 Legal expenses for settlement of claims.
- The net premium income of the company during the FY 2018-19 was ₹ 38,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ 6.5% was created. This year, the balance to be carried forward is 40% of net premium on reserve for unexpired risk and 5% on additional reserve.

You are required to make the Revenue Account for the year ended 31st March, 2020.

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6. PQR Limited is a retail organization with several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The markup for Department A for the last three years has been 20%. Figures relevant to Department A for the year ended 31st March, 2020 were as follows:

Opening stock as on 1st April, 2019, at cost ₹ 70,000

Purchases at cost ₹ 2,16,000

Sales ₹ 3,24,000

It is further ascertained that :

- (1) Goods purchased in the period were marked down by ₹ 1,680 from a cost of ₹ 19,200. Marked down stock costing ₹ 4,800 remained unsold on 31st March 2020.
- (2) Shortage of stock found in the year ending 31.03.2020, costing ₹ 1,440 was written off.
- (3) Opening stock on 01.04.19 including goods costing ₹ 9,840 had been sold during the year and had been marked down in the selling price by ₹ 888. The remaining stock had been sold during the year.
- (4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare :

- (i) A Departmental Trading Account for Department A for the year ended 31st March, 2020 in the books of Head Office.
- (ii) A Memorandum Stock Account for the year.
- (iii) A Memorandum Mark-up Account for the year.

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- (b) PQR has a branch at Houston (USA). Business of the Branch is carried out substantially independent by way of accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency. The trial balance of the Branch as at 31st March, 2020 is as follows:

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Particulars	US \$	
	Debit	Credit
Office equipment (Cost)	56,400	
Opening Accumulated Depreciation (Office equipment)		5,400
Furniture and Fixtures (Cost)	36,000	
Opening Accumulated Depreciation (Furniture and Fixtures)		6,840
Opening Stock as on 1 st April, 2019	24,500	
Purchases	96,500	
Sales		1,76,250
Salaries	4,250	
Carriage inward	256	
Rent, Rates & Taxes	956	
Sundry debtors	12,560	
Sundry Creditors		8,650
Cash at bank	2,540	
Cash in hand	500	
Head office Account		37,322
Total	2,34,462	2,34,462

Following further information are given :

- Salaries outstanding as on 31st March, 2020 is US \$ 600.
- Depreciate office equipment and furniture & fixtures @ 10% at written down value.

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- (iii) Closing stock as on 31st March, 2020 is US \$ 24,650.
- (iv) You are informed that the Head office is showing receivable from the Branch as ₹ 23,75,614 as on 31st March, 2020. No transaction in respect of the Branch is pending in Head office.
- (v) Office equipment (cost) includes one office equipment of US \$ 2,400 purchased on 01/04/2019.
- (vi) One furniture of carrying value of US \$ 450 as on 01/04/2019 (cost: US \$ 500 and Accumulated depreciation: US \$ 50) has been sold for US \$ 405 on 31/03/2020 to Mr. M at no profit no loss. Mr. M has not paid the amount till the finalization of branch account. No entry has been passed for this sale of furniture in the above trial balance.
- (vii) The rate of exchange on different dates are :

Date	1 US \$ is equivalent to
1 st April, 2019	₹ 64
31 st December, 2019	₹ 70
31 st March, 2020	₹ 75
Average for the year	₹ 72

You are required to prepare the Trial Balance after incorporating adjustments given and converting US \$ into rupees.

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

- (a) Mr. Roy is engaged in Trading of Item I and II. Following Data are available from his Accounting records for Accounting period (1st April, 2019 to 31st March, 2020) 4
- (i) Purchased item I on cash for ₹ 60,000 in F.Y. 2019-20.
- (ii) Purchased item II on credit for ₹ 4,500 in F.Y. 2019-20.
- (iii) Sold item II for ₹ 5,000 in cash in F.Y. 2019-20.

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(iv) He also sold item I for ₹ 60,000 in cash and ₹ 15,000 on credit in F.Y. 2019-20.

(v) Payment for Item II purchase was done on 20th April 2020 for ₹ 4,300 as full and final payment.

(vi) Paid Insurance ₹ 2,400 for one year as on 1st July, 2019.

(vii) Wages to worker is payable for the month of March, 2020 ₹ 200.

Prepare the Profit and Loss Account of the trader by applying cash basis as well as accrual basis of accounting.

(b) Under what circumstances, an LLP can be wound up by the Tribunal ? **4**

(c) On 1st April, 2019, a company offered 100 shares to each of its 600 employees at ₹ 60 per share. The employees are given a year to accept the offer. The shares issued under the plan shall be subject to lock-in on transfer for three years from the grant date. The market price of shares of the company on the grant date is ₹ 70 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at ₹ 65 per share. **4**

On 31st March, 2020, 500 employees accepted the offer and paid ₹ 60 per share purchased. Nominal value of each share is ₹ 10.

You are required to pass Journal Entries for issue of share in the books of the company under the aforesaid plan.

(d) The following details have been taken out from the records of SGM Bank Ltd. as on 31st March, 2020 : **4**

	Debit ₹	Credit ₹
Rebate on bills discounted (not due on 31 st March, 2019)		56,800
Discount received		4,03,500
Bills discounted	15,08,600	

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An analysis of bills discounted is as follows :

Sl. No.	Amount (₹)	Due date (year 2020)	Rate of discount
1	2,95,000	April 10 th	13%
2	1,65,500	May 8 th	14%
3	4,58,600	June 18 th	16%
4	5,89,500	July 15 th	15%

You are required to :

- (i) Calculate rebate on bills discounted as on 31st March, 2020.
 - (ii) The amount of discount to be credited to the profit and loss account.
 - (iii) Prepare discount on bills account as would appear in the books of Rebate Bank Ltd.
- (e) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following :
- (i) Branch incurred travelling expenses of ₹ 4,000 on behalf of other Branches, but not recorded in the books of Branch.
 - (ii) Goods dispatched by the Head office amounting to ₹ 8,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.
 - (iii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 2,000.
 - (iv) Branch paid ₹ 2,000 as salary to a Head Office Manager, but the amount paid has been debited by the Branch to Salaries Account.

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