IPCC
GROUP-II PAPER-5
ADVANCED ACCOUNTING

MAY 2011

Roll No. .....

Total No. of Questions – 7 | Total No. of Printed Pages – 11

Time Allowed – 3 Hours | Maximum Marks – 100

# ORS

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 answers in Hindi will not be valued.

Question No. **1** is compulsory.

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

Working Notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

**Marks**

1. Answer the following questions :

(a) The following information is available for Raja Ltd. for the accounting year 2009-10 and 2010-11. **4×5 = 20**

| | | | |
|---|---|---|---|
| Net Profit : | Year 2009 – 10 | ₹ | 25,00,000 |
| | Year 2010 – 11 | ₹ | 40,00,000 |

No. of shares outstanding prior to right issue 12,00,000 shares.

Right issue : One new share for each three outstanding i.e. 4,00,000 shares

: Right issue price ₹ 22

: Last date of exercise rights 30-6-2010

Fair rate of one equity share immediately prior to exercise of rights on 30-6-2010 = ₹ 28

**ORS** **Marks**

(b) Delta Ltd. issue 25,00,000 equity shares of ₹ 10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, Q & R in the ratio of 2 : 3 : 4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting were as

P 3,00,000

Q 3,50,000

R 4,50,000

Unmarked and surplus applications to be distributed in Gross liability ratio.

Ascertain the liability of each underwriter.

(c) Brahma Limited has three departments and submits the following information for the year ending on 31st March, 2011.

| Particulars | A | B | C | Total (₹) |
|---|---|---|---|---|
| Purchases (units) | 5,000 | 10,000 | 15,000 | |
| Purchases (Amount) | | | | 8,40,000 |
| Sales (units) | 5,200 | 9,800 | 15,300 | |
| Selling price (₹ per unit) | 40 | 45 | 50 | |
| Closing Stock (Units) | 400 | 600 | 700 | |

You are required to prepare departmental trading account of Brahma Limited assuming that the rate of profit on sales is uniform in each case.

**ORS**

**ORS** **Marks**

(d) A Company has its share capital divided into shares of ₹ 10 each. On 1st April 2010 it granted 20,000 employees' stock options at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 1st January 2011 to 15th March 2011. The employees exercised their options for 18,000 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries with regard to employees' stock option.

2. A and B are partners of AB & Co sharing Profits and Losses in the ratio of 2 : 1 and C and D are partners of CD & Co sharing Profits and Losses in the ratio of 3 : 2. On 1st April 2011 they decided to amalgamate and form a new firm M/s. AD & Co wherein all the partners of the both the firm would be partners sharing profits and losses in the ratio of 2 : 1 : 3 : 2 respectively to A, B, C and D. **16**

Their balance sheets on that date were as under :

| Liabilities | AB & Co ₹ | CD & Co ₹ | Assets | AB & Co ₹ | CD & Co ₹ |
|---|---|---|---|---|---|
| Capitals | | | | | |
| A | 1,50,000 | | Building | 75,000 | 90,000 |
| B | 1,00,000 | | Machinery | 1,20,000 | 1,00,000 |
| C | | 1,20,000 | Furniture | 15,000 | 12,000 |
| D | | 80,000 | Stock | 24,000 | 36,000 |
| Reserve | 66,000 | 54,000 | Debtors | 65,000 | 78,000 |
| Creditors | 52,000 | 35,000 | Due from CD | | |
| Due to AB & Co. | | 47,000 | & Co. | 47,000 | |
| | | | Cash at Bank | 18,000 | 15,000 |
| | | | Cash in hand | 4,000 | 5,000 |
| | **3,68,000** | **3,36,000** | | **3,68,000** | **3,36,000** |

**ORS** **Marks**

The amalgamated firm took over the business on the following terms :

(a) Building was taken over at ₹ 1,00,000 and ₹ 1,25,000 of AB & Co. and CD & Co respectively. And Machinery was taken over at ₹ 1,25,000 and ₹ 1,10,000 of AB & Co and CD & Co respectively.

(b) Goodwill of AB & Co was worth ₹ 75,000 and that of CD & Co was worth ₹ 50,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(c) Provision for doubtful debts has to be carried forward at ₹ 5,000 in respect of debtors of AB & Co and ₹ 8,000 in respect of CD & Co.

You are required to :

(i) Compute the adjustments necessary for goodwill.

(ii) Pass the Journal Entries in the books of AD & Co assuming that excess / deficit capital (taking D's Capital as base) with reference to share in profits are to be transferred to current accounts.

3. The Balance Sheet of X Limited as on 31st March 2011, was as follows : **16**

| **Liabilities** | **Amount** ₹ | **Assets** | **Amount** ₹ |
|---|---|---|---|
| Authorised and Subscribed Capital : | 10,00,000 | Fixed Assets : | |
| 10,000 Equity Shares of ₹ 100 each fully paid | | Machineries | 3,50,000 |
| | | Current Assets : | |
| Unsecured Loans : | | Stock | 2,53,000 |
| 15% Debentures | 3,00,000 | Debtors | 2,30,000 |
| Accrued interest | 45,000 | Bank | 20,000 |
| Current Liabilities : | | Profit & Loss A/c. | 5,80,000 |
| Creditors | 52,000 | | |
| Provision for Income Tax | 36,000 | | |
| | **14,33,000** | | **14,33,000** |

**ORS**

**ORS** **Marks**

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that :

(i) Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.

(ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debentureholders and creditors as necessary.

(iii) Out of shares surrendered, 1000 shares of ₹ 10 each shall be converted into 10% Preference Shares of ₹ 10 each fully paid up.

(iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 1,00,000 which are converted out of shares surrendered.

(v) Creditors claim shall be reduced by 25%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

(vi) Balance of Profit and Loss Account to be written off.

(vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

**ORS** **Marks**

4. (a) The summarized Balance Sheet of Full Stop Limited as on 31st March 2011, being the date of voluntary winding up is as under : **8**

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Share Capital : | | Land & Building | 5,20,000 |
| 5000, 10% Cumulative Preference Shares of ₹ 100 each fully paid up | 5,00,000 | Plant & Machinery | 7,80,000 |
| | | Stock in Trade | 3,25,000 |
| | | Book Debts | 10,25,000 |
| Equity Share Capital : | | Profit & Loss Account | 5,50,000 |
| 5000 Equity shares of ₹ 100 each ₹ 60 per share called and paid up | 3,00,000 | | |
| 5000 Equity shares of ₹ 100 each ₹ 50 per share called up and paid up | 2,50,000 | | |
| Securities premium | 7,50,000 | | |
| 10% Debentures | 2,10,000 | | |
| Preferential Creditors | 1,05,000 | | |
| Bank Overdraft | 4,85,000 | | |
| Trade Creditors | 6,00,000 | | |
| | **32,00,000** | | **32,00,000** |

Preference Dividend is in arrears for three years. By 31-03-2011 the assets realized were as follows :

| | ₹ |
|---|---|
| Land & Building | 6,20,000 |
| Stock in Trade | 3,10,000 |
| Plant & Machinery | 7,10,000 |
| Book Debts | 6,60,000 |

Expenses of liquidation are ₹ 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income Tax payable on liquidation is ₹ 67,000. Assuming that the final payments were made on 31-03-2011, prepare the Liquidator's Statement of Account.

ORS

Marks

(b) XYZ Company is having it's Branch at Kolkata. Goods are invoiced to the branch at 20% 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 Manager. From the following particulars prepare branch account in the books of Head Office. 8

| | ₹ | | ₹ |
|---|---|---|---|
| Stock on 1st April 2010 (invoice price) | 30,000 | Discount allowed to debtors | 160 |
| Sundry Debtors on 1st April, 2010 | 18,000 | Expenses paid by head office : | |
| Cash in hand as on 1st April, 2010 | 800 | Rent | 1,800 |
| | | Salary | 3,200 |
| Office furniture on 1st April, 2010. | 3,000 | Stationery & Printing | 800 |
| Goods invoiced from the head office (invoice price) | 1,60,000 | Petty exp. Paid by the branch | 600 |
| Goods return to Head Office | 2,000 | Depreciation to be provided on branch furniture at 10% p.a. | |
| Goods return by debtors | 960 | | |
| Cash received from debtors | 60,000 | | |
| Cash Sales | 1,00,000 | Stock on 31st March, 2011 (at invoice price) | 28,000 |
| Credit sales | 60,000 | | |

**ORS** **Marks**

5. From the following information prepare the Profit & Loss Account of Jawahar Bank Limited for the year ended 31st March, 2011. Also give necessary Schedules. **16**

| | Figures are in ₹ Thousands |
|---|---|
| Interest earned on Term Loans | 17.26 |
| Interest earned on Term Loans classified as NPA | 4.52 |
| Interest Received on Term Loans classified as NPA | 2.04 |
| Interest on Cash credits and Overdrafts | 38.54 |
| Interest earned but not received on Cash credit and overdraft treated as NPA | 8.39 |
| Interest on Deposits | 27.20 |
| Commission | 1.97 |
| Profit on sale of Investments | 11.76 |
| Profit on revaluation of Investments | 2.76 |
| Income from Investments | 15.53 |
| Salaries Bonus and Allowances | 18.75 |
| Rent, Taxes and Lighting | 1.70 |
| Printing and Stationary | 0.75 |
| Director's fees, allowances expenses | 1.33 |
| Law charges | 0.22 |
| Repairs and Maintenance | 0.18 |
| Insurance | 0.30 |
| Other Information : | |
| Make necessary provision on risk assets : | |
| (i) Sub-standard | 15.00 |
| (ii) Doubtful for one year | 7.00 |
| (iii) Doubtful for two years | 2.40 |
| (iv) Loss assets | 0.65 |
| Investments | 3700 |

Bank should not keep more than 25% of its investments as 'held-for-maturity' investment. The market value of its best 75% investments is ₹ 9,00,000 as on 31st March, 2011.

**ORS**

ORS

Marks

6. (a) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000. The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000. the implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively. 8

Calculate the value of machinery to be considered by Lessee Ltd. and the finance charges in each year.

(b) Modern Insurance Company's Fire Insurance division provide the following information, show the amount of claim at it would appear in the Revenue Account for the year ended 31st March, 2011. 8

| | Direct Business | Re-insurance |
|---|---|---|
| | ₹ | ₹ |
| Claim paid during the year | 35,30,000 | 8,20,000 |
| Claim received | | 3,20,000 |
| Claim payable | | |
| 1st April, 2010 | 8,23,000 | 58,000 |
| 31st March, 2011 | 8,75,000 | 87,000 |
| Claim Receivable : | | |
| 1st April, 2010 | – | 85,000 |
| 31st March, 2011 | – | 1,42,000 |
| Expenses of Management (Includes ₹ 38,000 Surveyor's fee and ₹ 42,000 Legal expenses for settlement of claims) | 3,45,000 | |

**ORS** **Mark**

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

(a) XYZ Ltd. had issued 30,000, 15% convertible debenture of ₹ 100 each on 1st April 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debentureholders to convert 20% of their holding into equity shares (Nominal Value ₹ 10) at a price of ₹ 15 per share. Debentureholders holding 2500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

(b) Siva Limited received a grant of ₹ 1,500 lakhs during the last accounting year (2009-10) from Government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However during the year 2010-11, it was found that the conditions of the grant were not compiled with and the grant had to be refunded to the Government in full. Elucidate the current accounting treatment with reference to the provisions of AS-12.

(c) Carrying amount of a machine is ₹ 1,00,000 (Historical cost less depreciation). The machine is expected to generate ₹ 25,000 net cash flow for 5 years. The net realizable value (or net selling price) of the machine on current date is ₹ 85,000. The enterprises required rate of earning is 10% p.a. State the value at which the enterprise should carry its machine. The present value factors at 10% are 0.909, 0.826, 0.751, 0.683 and 0.621 at the end of first, second, third, fourth and fifth year respectively.

**ORS** **Marks**

(d) A company signed an agreement with the employee's union on 01-09-2010 for revision of wages with retrospective effect from 01-04-2009. This would cost the company an additional liability of ₹ 10 lakhs per annum. Is a disclosure necessary for the amount paid in 2010-11.

(e) Why goods are marked on invoice price by the head office while sending goods to the branch ?

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