INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

NOV 2015

Roll No. ....

Total No. of Questions – 7 | Total No. of Printed Pages – 12

Time Allowed – 3 hours | Maximum Marks – 100

VFS

Answer of 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.

Working notes should form part of the respective answer.

Wherever necessary, suitable assumption may be made by the candidates and it must be disclosed as a note forming part of the answer.

Question No.**1** is compulsory.

Candidates are required to answer any five questions from the remaining **six** questions.

Marks

1. Answer the following questions : **4×5 =20**

(a) Explain briefly the accounting treatment needed in the following cases as per AS 11 as on 31.3.2015. **5**

Sundry Debtors include amount receivable from Umesh ₹ 5,00,000 recorded at the prevailing exchange rate on the date of sales, transactions recorded at US \$ 1 = ₹ 58.50.

Long term loan taken from a U.S. Company, amounting to ₹ 60,00,000. It was recorded at US \$ 1 = ₹ 55.60, taking exchange rate prevailing at the date of transaction.

US \$ 1 = ₹ 61.20 on 31.3.2015

Marks

(b) Aksat International Limited has given a machinery on lease for 36 months and its useful life is 60 months. Cost & fair market value of the machinery is ₹ 5,00,000. The amount will be paid in 3 equal annual installments and the lessee will return the machinery to lessor at termination of lease. The unguaranteed residual value at the end of 3 years is ₹ 50,000. IRR of investment is 10% and present value of annuity factor of ₹ 1 due at the end of 3 years at 10% IRR is 2.4868 and present value of ₹ 1 due at the end of 3rd year at 10% IRR is 0.7513. **5**

You are required to comment with reason whether the lease constitute finance lease or operating lease. If it is finance lease, calculate unearned finance income.

(c) Balance Sheet of Anurag Trading Co. on 31st March, 2014 is given below : **5**

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital	50,000	Fixed Assets	69,000
Profit and Loss A/c	22,000	Stock in Trade	36,000
10% Loan	43,000	Trade Receivables	10,000
Trade Creditors	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,33,000		**1,33,000**

Additional Information :

(i) Remaining life of fixed assets is 5 years with even use. The net realizable value of fixed assets as on 31st March, 2015 was ₹ 64,000.

(ii) Firm's sales and purchases for the year 2014-15 amounted to ₹ 5 lacs and ₹ 4.50 lacs respectively.

(iii) The cost and net realizable value of the stock were ₹ 34,000 and ₹ 38,000 respectively.

(iv) General Expenses for the year 2014-15 were ₹ 16,500.

(v) Deferred Expenditure is normally amortized equally over 4 years starting from F.Y. 2013-14 i.e. ₹ 5,000 per year.

(vi) Out of debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful re-design of certain product already supplied to the customer.

(vii) Closing trade payable is ₹ 10,000, which is likely to be settled at 95%.

(viii) There is pre-payment penalty of ₹ 2,000 for Bank loan outstanding.

Prepare Profit & Loss Account for the year ended 31st March, 2015 by **assuming it is not a Going Concern.**

(d) Shan Builders Limited has borrowed a sum of US $ 10,00,000 at the beginning of Financial Year 2014-15 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 ₹ 56 per US $ and the rate as on 31st March, 2015 was ₹ 62 per US $. If Shan Builders Limited borrowed the loan in India in Indian Rupee equivalent, the pricing of loan would have been 10.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2015 as per applicable Accounting Standards. (Applicable LIBOR is 1%) **5**

Marks

2. Yash, Tanish and Ruchika were partners sharing Profit & Loss in ratio of 3:2:1. Balance Sheet of the firm is as follows : **16**

Liabilities	Amount (₹)	Assets	Amount (₹)
Fixed Capital :		Fixed Assets	45,000
- Yash	50,000	Investments	15,000
- Tanish	20,000	Current Assets :	
- Ruchika	10,000	- Stock	10,000
Current Accounts :		- Debtors	27,500
- Yash	6,000	- Cash & Bank	12,500
- Ruchika	4,000	Current Account :	
Unsecured Loans	15,000	- Tanish	10,000
Current Liabilities	15,000		
	1,20,000		**1,20,000**

On 1st April, 2014 all the partners agreed to form a new company YTR Pvt. Ltd., which shall take over the firm as going concern including goodwill, but excluding cash and bank balances. The following matters were also agreed upon :

(i) Goodwill shall be valued at 3 years' purchase of super profits.

(ii) Actual profit for the purpose of goodwill valuation will be ₹ 20,000.

(iii) The normal rate of return will be 17.50% per annum of Fixed Capital.

(iv) All other Assets and Liabilities will be taken over at book value.

(v) The purchase consideration will be paid partly in share of ₹ 1 each and partly in cash. Yash and Tanish to acquire interest in new company in the ratio of 3:2 at face value. Ruchika agreed to retire after taking her share in cash.

(vi) Realisation expenses amounted to ₹ 5,000.

Prepare Realisation Account, Cash and Bank Account, YTR Private Limited Account and Capital Accounts of the partners.

Marks

3\. (a) P. Ltd. granted option for 8000 equity shares on 1st October, 2010 at ₹ 80 when the market price was ₹ 170. The vesting period is $4\frac{1}{2}$ year. 4000 unvested options lapsed on 1st December, 2012. 3000 options are exercised on 30th September, 2014 and 1000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions. 8

(b) Saurav Flour Mills Pvt. Ltd. floated a public issue of 1,50,000 Equity shares having face value of ₹ 10 each at par. A, B & C has taken underwriting of the issue in equal share with firm underwriting of 25000, 20000 & 20000 shares respectively. Applications were received for 146000 shares out of which the marked applications were as under : 8

A – 24600   B – 20000   C – 15000

Credit of unmarked applications is to be given to underwriters equally. The agreed underwriting commission was 5%. Total amount payable on application and allotment was ₹ 5 and balance in calls.

Compute the following :

(i) Liability of each underwriter (In shares as well as in amount).

(ii) Commission due to underwriters

(iii) Net Cash paid / received from underwriters

Also pass Journal Entries for above.

Marks

4. The following is the Balance Sheet of Star Ltd. as on 31st March, 2015 : 16

			₹
A.	**Equity & Liabilities :**		₹
1.	**Shareholders' Fund :**		
	(a)	**Share Capital :**	
		9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
		10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
	(b)	**Reserve & Surplus :**	
		Profit & Loss Account	(2,00,000)
2.	**Non-current liabilities :**		
	"A" 6% Debentures (Secured on Bombay Works)		3,00,000
	"B" 6% Debentures (Secured on Chennai Works)		3,50,000
3.	**Current Liabilities and Provisions :**		
	(a)	Workmen's Compensation Fund:	
		Bombay Works	10,000
		Chennai Works	5,000
	(b)	Trade Payables	1,25,000
	Total		**24,90,000**
B.	**Assets :**		
1.	**Non – current Assets :**		
	Tangible Assets :		
	Bombay Works		9,50,000
	Chennai Works		7,75,000
2.	**Investment :**		
	Investments for Workman's Compensation Fund		15,000
3.	**Current Assets :**		
	(a)	Inventories	4,50,000
	(b)	Trade Receivables	2,50,000
	(c)	Cash at Bank	50,000
	Total		**24,90,000**

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows :

(i) Paid up value of 8% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

Marks

5. (a) Prepare Revenue Account of M/s Ishan Insurance Co. engaged in marine insurance business : 12

Particulars	Direct Business (₹)	Re-Insurance (₹)
I. Premium		
Received	3,60,000	38,000
Receivable - 1st April, 2014	10,000	1,600
- 31st March, 2015	16,000	1,800
Premium Paid	–	24,000
Premium Payable - 1st April, 2014	–	1,000
- 31st March, 2015	–	2,200
II. Claims		
Paid	1,54,000	14,000
Payable - 1st April, 2014	78,000	1,500
- 31st March, 2015	16,000	4,200
Received	–	17,000
Receivable - 1st April, 2014	–	1,400
- 31st March, 2015	–	1,900
III. Commission		
On insurance accepted	96,000	5,600
On insurance ceded	–	8,000

Marks

Details of Other Expenses & Income is as below:

		₹
Establishment Expenses	–	30,000
Rent, rates & taxes	–	14,000
Printing & Stationery	–	1,800
Income tax paid	–	10,000
Income from Dividend	–	18,000
Legal Expenses (Inclusive of ₹ 1,200 in connection with settlement of claims)	–	2,000
Double Income Tax Refund	–	24,000
Bad debts	–	1,300
Profit on sale of furniture	–	700

Balance of fund as on 1st April, 2014 was ₹ 7,65,000 including Additional reserve of ₹ 33,000.

Additional reserve is to be created @ 5% of the net premium of the year.

(b) ABC Bank Ltd. has a balance of ₹ 40 crores in "Rebate on bills discounted" account as on 31st March, 2014. The Bank provides you the following information : **4**

(i) During the financial year ending 31st March, 2015 ABC Bank Ltd. discounted bills of exchange of ₹ 5000 crores charging interest @ 14% and the average period of discount being 146 days.

(ii) Bills of exchange of ₹ 500 crores were due for realization from the acceptors/customers after 31st March, 2015. The average period of outstanding after 31st March, 2015 being 73 days. These bills of exchange of ₹ 500 crores were discounted charging interest @ 14 % p.a.

You are requested to pass necessary Journal Entries in the books of ABC Bank Ltd. for the above transactions.

Marks

6. (a) Raju Industries, Kolkata has a branch in Delhi 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 branch has to remit all cash received to the Head office Bank Account. 12

From the following details, relating to calendar year 2014, 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.

Particulars	Amount in ₹
Goods received from Head Office at Invoice Price	6,00,000
Returns to Head Office at Invoice Price	12,000
Stock at Delhi as on 1st Jan., 2014	60,000
Sales during the year - Cash	1,80,000
- Credit	3,80,000
Sundry Debtors at Delhi as on 1st Jan., 2014	72,000
Discount allowed to debtors	8,000
Bad Debts in the year	6,000
Sales returns at Delhi Branch	6,000
Rent, Rates, Taxes at Branch	16,000
Salaries, Wages, Bonus at Branch	62,000
Office Expenses	6,000
Stock at Branch on 31st December, 2014	1,20,000

Marks

(b) Sona Ltd. has three departments – P, Q and R. From the following particulars given below, compute : **4**

(i) The departmental results;

(ii) The value of stock as on 31st December, 2014;

Particulars	P	Q	R
Stock as on 01.01.2014	30,000	45,000	15,000
Purchases	1,60,000	1,30,000	60,000
Actual Sales	1,88,000	1,66,000	93,000
Gross Profit on normal sales price	25%	$33\frac{1}{3}\%$	40%

During the year 2014 some items were sold at discount and these discounts were reflected in the above sales value. The details are given below:

Particulars	P	Q	R
Sales at normal price	15,000	8,000	6,000
Sales at actual price	11,000	6,000	4,000

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

(a) What do you mean by "Weighted average number of equity shares outstanding during the period" and why is it required to be calculated ? Compute weighted average number of equity shares in the following case : **4**

		No. of shares
1st April, 2014	Balance of Equity Shares	500000
30th June, 2014	Equity Shares issued for cash	100000
15th January, 2015	Equity Shares bought back	50000
31st March, 2015	Balance of Equity Shares	550000

Marks

(b) What are the contents of "Liquidators' statement of account" ? **4**

(c) Specify the conditions when cash credit overdraft account is treated as "Out of order" ? **4**

(d) Write the LISTS which should accompany the Statement of Affairs, in case of a winding up by Court. **4**

(e) Pass necessary Journal Entries (with narration) in the books of branch to rectify or adjust the following : **4**

(i) Branch Paid ₹ 24,000 as salary to HO Supervisor and the amount was debited to Salaries Account by the branch.

(ii) Head Office Expenses allocated to branch were ₹ 22,500, but these expenditure were not recorded by the branch.

(iii) HO collected ₹ 50,000 directly from the customer on branch's behalf.

(iv) Branch has sent remittance of ₹ 1,20,000 but the same has not yet been received by HO.
