MAY 2015

Roll No. .... **INTERMEDIATE (IPC)**

GROUP II - PAPER 5

Total No. of Questions **ADVANCED ACCOUNTING** Total No. of Printed Pages – **11**

Time Allowed – **3** Hours

Maximum Marks – **100**

RMA

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.

Working notes should form part of the respective answer.

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

Question No. **1** is compulsory.

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

Marks

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

(a) M/s. Shishir Ltd., a public Sector Company, provides consultancy and engineering services to its clients. In the year 2014-15, the Government set up a commission to decide about the pay revision. The pay will be revised with respect from 1-1-2012 based on the recommendations of the commission. The company makes the provision of ₹ 1250 lakhs for pay revision in the financial year 2014-15 on the estimated basis as the report of the commission is yet to come. As per the contracts with client on cost plus job, the billing is done on the actual payment made to the employees and allocated to jobs based on hours booked by these employees on each job. **5**

The company discloses through notes to accounts :

"Salaries and benefits include the provision of ₹ 1250 lakhs in respect of pay revision. The amount chargeable from reimbursable jobs will be billed as per the contract when the actual payment is made."

The Accountant feels that the company should also book/recognize the income by ₹ 1250 lakhs in Profit & Loss Account as per the terms of the contract. Otherwise, it will be the violation of matching concept & understatement of profit.

Comment on the opinion of the Accountant with reference to relevant Accounting Standards.

(b) M/s. Mahesh Ltd. is developing a new production process. During the Financial Year ended 31st March, 2013, the total expenditure incurred on the process was ₹ 60 lacs. The production process met the criteria for recognition as an intangible asset on 1st December, 2012. Expenditure incurred till this date was ₹ 32 lacs. 5

Further expenditure incurred on the process for the Financial Year ending 31st March, 2014 was ₹ 90 lacs. As on 31.03.2014, the recoverable amount of know-how embodied in the process is estimated to be ₹ 82 lacs. This includes estimates of future cash outflows and inflows.

You are required to work out :

(i) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2013 ?

(ii) What is the carrying amount of the intangible asset as on 31st March, 2013 ?

(iii) What is the expenditure to be charged to Profit & Loss Account for the year ended 31st March, 2014 ?

(iv) What is the carrying amount of the intangible asset as on 31st March, 2014 ?

Marks

(c) M/s. Ayush Ltd. began construction of a new building on 1st January, 2014. It obtained ₹ 3 lakh special loan to finance the construction of the building on 1st January, 2014 at an interest rate of 12% p.a.. The company's other outstanding two non-specific loans were : 5

Amount	Rate of Interest
₹ 6,00,000	11% p.a.
₹ 11,00,000	13% p.a.

The expenditure that were made on the building project were as follows :

	Amount (₹)
January, 2014	3,00,000
April, 2014	3,50,000
July, 2014	5,50,000
December, 2014	1,50,000

Building was completed on 31st December, 2014. Following the principles prescribed in AS 16 'Borrowing Cost', calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing in respect of the building.

(d) M/s. A Ltd. had 8,00,000 Equity Shares outstanding on 1st April, 2013. The Company earned a profit of ₹ 20,00,000 during the year 2013-14. The average fair value per share during 2013-14 was ₹ 40. The Company has given Share Option to its employees of 1,00,000 Equity Shares at option price of ₹ 20. 5

Calculate Basic EPS and Diluted EPS.

Marks

2. X, Y and Z were in partnership sharing profits and losses 3:2:1. There was no provision in the agreement for interest on capital or drawings. **16**

X died on 31.3.2013 and on that date, the partners' balance were as under :

Capital Account : X – ₹ 60,000, Y – ₹ 40,000, Z – ₹ 20,000.

Current Account : X – ₹ 40,000 (Cr.), Y – ₹ 30,000 (Cr.), Z – ₹ 10,000 (Dr.)

By the partnership agreement, the sum due to X's estate was required to be paid within a period of 3 years, and minimum installment of ₹ 30,000 each were to be paid, the first such installment falling due immediately after death and the subsequent installments at half-yearly intervals. Interest @6% p.a. was to be credited half yearly.

In ascertaining his share, goodwill (not recorded in the books) was to be valued at ₹ 90,000 and the assets, excluding the Joint Endowment Policy (mentioned below), were valued at ₹ 60,000 in excess of the book values.

No Goodwill Account was raised and no alteration was made to the book values of fixed assets. The Joint Assurance Policy shown in the books at ₹ 40,000 matured on 1.4.2014, realizing ₹ 52,000; payments of ₹ 30,000 each were made to X's Executors on 1.4.2013, 30.9.2013 and 31.3.2014. Y and Z continued trading on the same terms as previously and the net profit for the year ending 31.3.2014 (before charging the interest due to X's estate) amounted to ₹ 52,000. During that period, the partners' drawings were Y- ₹ 15,000; and Z - ₹ 8,000.

On 1.4.2014, the partnership was dissolved and an offer to purchase the business as a going concern for ₹ 1,80,000 was accepted on that day. A cheque for that sum was received on 30.6.2014.

The balance due to X's estate, including interest, was paid on 30.6.2014 and on that day, Y and Z received the sums due to them.

You are required to write-up the Partners' Capital and Current Accounts from 1.4.2013 to 30.6.2014. Show also the account of the executors of X.

Marks

3. (a) Comment on adequacy of Debenture Redemption Reserve (DRR) w.r.t. following : **4**

Debentures issued by –

(i) All India Financial Institutions regulated by Reserve Bank of India and Banking companies.

(ii) For other Financial Institutions within the meaning given in the Companies Act.

(iii) For debentures issued by NBFCs registered with the RBI.

(iv) For debentures issued by other companies including manufacturing and infrastructure companies.

(b) M/s. Piyush Ltd. had the following among their ledger opening balances on January 1, 2014 : **12**

	₹
11% Debenture A/c (2002 issue)	80,00,000
Debenture Redemption Reserve A/c	70,00,000
13.5% Debenture in Sneha Ltd. A/c (Face Value ₹ 30,00,000)	29,00,000
Own Debentures A/c (Face Value ₹ 30,00,000)	27,00,000

As 31st December, 2014 was the date of redemption of the 2002 debentures, the company started buying own debentures and made the following purchases in the open market :

1-2-2014 – 5000 debentures at ₹ 98 cum-interest

1-6-2014 – 5000 debentures at ₹ 99 ex-interest.

Half yearly interest is due on the debentures on 30th June and 31st December in the case of both the companies.

On 31st December, 2014, the debentures in Sneha Ltd. were sold for ₹ 95 each ex-interest. On that date, the outstanding debentures of M/s. Piyush Ltd. were redeemed by payment and by cancellation.

Marks

Show the entries in the following ledger accounts of M/s. Piyush Ltd during 2014 :

(i) Debenture Redemption Reserve Account,

(ii) Own Debenture Account.

The face value of a debenture was ₹ 100.

4. The summarised Balance Sheet of M/s. A Ltd. and M/s. B Ltd. as on 31.03.2014 were as under : **16**

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital :			Freehold Property	3,00,000	2,40,000
40,000 Equity Shares of ₹ 10 each, Fully paid	4,00,000	–	Plant & Machinery	60,000	40,000
30,000 Equity Shares of ₹ 10 each, Fully Paid	–	3,00,000	Motor Vehicle	30,000	20,000
			Trade Receivables	2,00,000	80,000
General Reserve	2,40,000	–	Inventory	2,30,000	1,80,000
Profit & Loss Account	50,000	50,000	Cash at Bank	80,000	40,000
Trade Payables	2,10,000	1,30,000			
6% Debentures	–	1,20,000			
	9,00,000	**6,00,000**		**9,00,000**	**6,00,000**

M/s. A Ltd. and M/s. B Ltd. carry on business of similar nature and they agreed to amalgamate. A new Company, M/s. AB Ltd. is formed to take over the Assets and Liabilities of M/s. A Ltd. and M/s. B Ltd. on the following basis :

Assets and Liabilities are to be taken at Book Value, with the following exceptions :

(a) Goodwill of M/s. A Ltd. and M/s. B Ltd. is to be valued at ₹ 1,40,000 and ₹ 40,000 respectively.

(b) Plant & Machinery of M/s. A Ltd. are to be valued at ₹ 1,00,000.

(c) The Debentures of M/s. B Ltd. are to be discharged by the issue of 6% Debentures of M/s. AB Ltd. at a premium of 5%.

You are required to :

(i) Compute the basis on which shares in M/s. AB Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of M/s. AB Ltd. is ₹ 10.

(ii) Draw up a Balance Sheet of M/s. AB Ltd. as on 1st April, 2014, when Amalgamation is completed.

(iii) Pass Journal entries in the Books of M/s. AB Ltd. for acquisition of M/s. A Ltd. and M/s. B Ltd.

5. (a) Following facts have been taken out from the records of M/s. Sneha Bank Ltd. in respect of the year ending March 31, 2015 : **12**

(i) On 1-4-2014 Bills for collection were ₹ 10,15,000. During 2014-15 bills received for collection amounted to ₹ 89,75,000, bills collected were ₹ 64,50,000 and bills dishonoured and returned were ₹ 11,25,000.

Prepare Bills for collection (Assets) Account and bills for Collection (Liability) Account.

Marks

(ii) On 1-4-2014, Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 27,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 67,50,000. Bank honoured acceptances to the extent of ₹ 44,50,000 and client paid off ₹ 15,00,000 against the guaranteed liability. Clients failed to pay ₹ 4,00,000 which the Bank had to pay.

Prepare the "Acceptances, Endorsements and other obligations Account" as it would appear in the General Ledger.

(iii) It is found from the books, that a loan of ₹ 50,00,000 was advanced on 30.09.2014 @ 14% p.a. Interest payable half yearly; but the loan was outstanding as on 31.3.2015 without any payment recorded in the meantime, either towards principal or towards interest. The security for the loan was 1,00,000 fully paid shares of ₹ 100 each (the market value was ₹ 98 per share as per the Stock Exchange information as on 30th September 2014.) But due to fluctuations, the price fell to ₹ 45 per share in January, 2015. On 31-3-2015, the price as per Stock Exchange rate was ₹ 85 per share.

State how would you classify the loan as secured/unsecured in the Balance Sheet of the Company.

(iv) The following balances are extracted from the Trial Balance as on 31.3.2015 :

	Dr. (₹)	**Cr. (₹)**
Interest and Discounts		98,00,000
Rebate for bills discounted		45,000
Bills discounted and purchased	5,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2014-15 amount to ₹ 24,000. Prepare ledger accounts.

Marks

(b) From the following information of M/s. XY Bank Ltd. for the year ended 31st March, 2014, compute the provisions to be made in the Bank's Books for Doubtful Assets : **4**

	₹ in Lakhs
Doubtful Assets (More than 3 Years)	2,000
DICGC 100% Cover	200
Value of Security including DICGC Cover	1,000

6. (a) M/s. Sandeep, having Head Office at Delhi has a Branch at Kolkata. The Head Office does wholesale trade only at cost plus 80%. The Goods are sent to Branch at the wholesale price viz. cost plus 80%. The Branch at Kolkata wholly engaged in retail trade and the goods are sold at cost to Head Office plus 100%. **8**

Following details are furnished for the year ended 31st March, 2014 :

	Head Office (₹)	Kolkata Branch (₹)
Opening Stock (As on 01.04.2013)	1,25,000	–
Purchases	21,50,000	–
Goods sent to Branch (cost to H.O. plus 80%)	7,38,000	–
Sales	23,79,600	7,30,000
Office Expenses	50,000	4,500
Selling Expenses	32,000	3,300
Staff Salary	45,000	8,000

You are required to prepare Trading and Profit & Loss Account of the Head Office and Branch for the Year ended 31st March, 2014.

Marks

(b) M/s. Suman Enterprises has two Departments, Finished Leather and Shoes. Shoes are made by the Firm itself out of leather supplied by Leather Department at its usual selling price. From the following figures, prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2014 : 8

	Finished Leather Department (₹)	Shoes Department (₹)
Opening Stock (As on 01.04.2013)	30,20,000	4,30,000
Purchases	1,50,00,000	2,60,000
Sales	1,80,00,000	45,20,000
Transfer to Shoes Department	30,00,000	–
Manufacturing Expenses	–	5,00,000
Selling Expenses	1,50,000	60,000
Rent and Warehousing	5,00,000	3,00,000
Stock on 31.03.2014	12,20,000	5,00,000

The following further information are available for necessary consideration :

(i) The stock in Shoes Department may be considered as consisting of 75% of Leather and 25% of other expenses.

(ii) The Finished Leather Department earned a Gross Profit @ 15% in 2012-13.

(iii) General expenses of the business as a whole amount to ₹ 8,50,000.

Marks

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

(a) What are the differences between Life insurance and other forms of insurance ? 4

(b) M/s. A Ltd. has set up its business in a designated backward area with an investment of ₹ 200 Lakhs. The Company is eligible for 25% subsidy and has received ₹ 50 Lakhs from the Government. 4

Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company.

(c) 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 ₹ 45,00,000 against which payment was made as follows : 4

Liquidation expenses	₹ 50,000
Secured Creditors	₹ 15,00,000
Preferential Creditors	₹ 1,25,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total remuneration payable to liquidator. Calculation shall be made to the nearest multiple of a rupee.

(d) State any four situations when a lease would be classified as Finance Lease. 4

(e) Under what circumstances, an LLP can be wound up by the Tribunal. 4

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