INTERMEDIATE (IPC) MAY 2014

GROUP II - PAPER 5

ADVANCED ACCOUNTING

Roll No. ....

Total No. of Questions – 7 Total No. of Printed Pages – 15

Time Allowed – 3 Hours Maximum Marks – 100

EDN

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.

Wherever appropriate, suitable assumptions may be made by the candidates.

Working notes should form part of the answer.

Question No. 1 is compulsory.

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

Marks

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

   (a) In its Final Accounts for the year ended 31st March, 2014, Z Ltd. made a provision of 3% of its total debtors. On 10th March, 2014, a debtor of ₹ 5 lakhs suffered a heavy loss and became insolvent in April 2014. The loss was not insured. **5**

   State giving reasons, if the company may provide for the full loss in its accounts for the year ended 31st March, 2014.

Marks

(b) Suhana Ltd. issued 12% secured debentures of ₹ 100 Lakhs on 01.05.2013, to be utilized as under : 5

Particulars	Amount (₹ in Lakhs)
Construction of factory building	40
Purchase of Machinery	35
Working Capital	25

In March 2014, construction of the factory building was completed and machinery was installed and ready for it's intended use. Total interest on debentures for the financial year ended 31.03.2014 was ₹11,00,000. During the year 2013-14, the company had invested idle fund out of money raised from debentures in banks' fixed deposit and had earned an interest of ₹ 2,00,000.

Show the treatment of interest under Accounting Standard 16 and also explain nature of assets.

(c) What do you understand by the term "Interest rate implicit on lease" ? 5

Calculate the interest rate implicit on lease from the following details :

Annual Lease Rent	:	₹ 80,000 at the end of each year
Lease Period	:	5 Years
Guaranteed Residual Value	:	₹ 40,000
Unguaranteed Residual Value	:	₹ 24,000
Fair Value at the inception of the lease	:	₹ 3,20,000

Marks

Discounted rates for the first 5 years are as below :

At 10% 0.909, 0.826, 0.751, 0.683, 0.621

At 14% 0.877, 0.769, 0.675, 0.592, 0.519

(d) The following information is available for AB Ltd. for the accounting year 2012-13 and 2013-14 : 5

Net profit for		₹
Year	2012-13	22,00,000
Year	2013-14	30,00,000

No of shares outstanding prior to right issue 10,00,000 shares.

Right issue : One new share for each five shares Outstanding i.e. 2,00,000 shares.

: Right Issue price ₹ 25

: Last date to exercise right 31st July, 2013

Fair value of one equity share immediately prior to exercise of rights on 31.07.2013 is ₹ 32.

You are required to compute

(i) Basic earnings per share for the year 2012-13.

(ii) Restated basic earnings per share for the year 2012-13 for right issue.

(iii) Basic earnings per share for the year 2013-14.

Marks

2. The partners P, Q & R have called you to assist them in winding up the affairs of their partnership on 31.12.2013. Their balance sheet as on that date is given below : 16

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts :		Land & Building	50,000
P	65,000	Plant & Machinery	46,000
Q	50,500	Furniture & Fixture	10,000
R	32,000	Stock	14,500
Sundry Creditors	16,000	Debtors	14,000
		Cash at Bank	9,000
		Loan P	13,000
		Loan Q	7,000
Total	**1,63,500**	**Total**	**1,63,500**

(a) The partners share profit and losses in the ratio of 4 : 3 : 2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transactions are as follows :

January 2014

- ₹ 9,000 - collected from debtors ; balance is uncollectable.
- ₹ 8,000 - received from the sale of entire furniture
- ₹ 1,000 - Liquidation expenses paid.
- ₹ 6,000- Cash retained in the business at the end of month

February 2014

- ₹ 1,000 - Liquidation expenses paid.
- As part payment of his capital, R accepted a machinery for ₹ 9,000 (book value ₹ 3,500)
- ₹ 2,000 – Cash retained in the business at the end of month

March 2014

- ₹ 38,000 – received on the sale of remaining plant and machinery.
- ₹ 10,000 – received from the sale of entire stock.
- ₹ 1,700 – Liquidation expenses paid.
- ₹ 41,000 – Received on sale of land & building.
- No Cash is retained in the business.

You are required to prepare a schedule of cash payments amongst the partners by "Higher Relative Capital Method".

3. (a) ZED Ltd. had 25000, 10% Debentures of ₹ 100 each outstanding as on 1st April, 2013, redeemable on 31st March, 2014. On 1st April, 2013, Sinking Fund was ₹ 24 lakhs represented by 3000 own Debentures purchased at the average price of ₹ 98 and 8% Stocks of face value of ₹ 22 lakhs. The annual installment towards Sinking Fund was ₹ 90,000. **8**

Marks

On 31st March, 2014, the investments were realized at ₹ 97 and the Debentures were redeemed.

Draw the following Accounts for the year ended 31st March, 2014 :

(i) 10% Debenture Account,

(ii) Debenture Redemption Sinking Fund Account,

(iii) Show the necessary working notes.

(b) A company made a public issue of 2,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4 : 3 : 2 : 1 respectively with the provision of firm underwriting of 5000, 4000, 2000 and 2000 shares respectively. 8

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55000, 40000, 42000 and 8000 shares were marked in favour of L, M, N and O respectively.

Calculate the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of firm underwriting is not given to the individual underwriter.

4. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under : 16

Marks

P Limited

Balance Sheet as at 31.03.2014

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserve & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8% Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total Liabilities	**3,34,000**
II. Assets	
1. Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000
Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at Bank	30,000
Total Assets	**3,34,000**

Marks

Q Limited

Balance Sheet as at 31.03.2014

Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserve & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total Liabilities	**5,45,000**
II. Assets	
(1) Noncurrent assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,90,000
Plant & Machinery at cost less Depreciation	80,000
Furniture & Fixture at cost less Depreciation	25,000
(2) Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at Bank	58,000
Total Assets	**5,45,000**

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below :

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to :

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,

(iii) Write up journal entries including bank entries for closing the books of P Ltd.

Marks

5. (a) Jay Electricity Company keeps accounts under the Double Accounts System. It decides to replace its old Plant with a new Plant. The Plant when installed in 2004 cost the company ₹ 75 Lakhs, the components of materials, labour and overheads being in the ratio of 4 : 4 : 2. It is ascertained that the cost of materials has gone up by 250% and the cost of the labour has gone up by 200%. The proportion of material, labour and overheads has changed to 5 : 4 : 4. **8**

The cost of the new plant is ₹ 250 Lakhs. In addition, goods worth ₹ 38 lakhs have been used in the construction of the new Plant. The old Plant was sold as scrap for ₹ 15 lakhs.

You are required to calculate :

(i) The amount to be capitalized,

(ii) The amount to be charged to Revenue.

Necessary Ledger Accounts are to be drawn as working notes.

(b) From the following information of XYZ Marine Insurance Ltd for the year ending 31st March, 2014, find out the **8**

(i) Net Premium earned

(ii) Net Claims Incurred

Marks

Particulars	Direct Business ₹	Re-insurance ₹
Premium Received	92,00,000	7,86,000
Premium Receivable as on 01.04.2013	4,59,000	37,000
Premium Receivable as on 31.03.2014	3,94,000	33,000
Premium Paid		6,36,000
Premium Payable as on 01.04.2013		28,000
Premium payable as on 31.03.2014		20,000
Claims Paid	73,00,000	5,80,000
Claims Payable as on 01.04.2013	94,000	16,000
Claims payable as on 31.03.2014	1,01,000	12,000
Claims received		2,10,000
Claims receivable as on 01.04.2013		42,000
Claims receivable as on 31.03.2014		39,000

Marks

6. (a) Pass necessary Journal entries in the books of an independent Branch of a Company, wherever required, to rectify or adjust the following : 8

   (i) Income of ₹ 2,800 allocated to the Branch by Head Office but not recorded in the Branch books.

   (ii) Provision for doubtful debts, whose accounts are kept by the Head Office, not provided earlier for ₹ 1,000.

   (iii) Branch paid ₹ 3,000 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 ₹ 5,000 on behalf of other Branches, but not recorded in the books of Branch.

   (v) A remittance of ₹ 1,50,000 sent by the Branch has not received by Head Office on the date of reconciliation of Accounts.

   (vi) Head Office allocates ₹ 75,000 to the Branch as Head Office expenses, which has not yet been recorded by the Branch.

   (vii) Head Office collected ₹ 30,000 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 ₹ 10,000, but not received by the Branch till date of reconciliation. The Goods have been received subsequently.

(b) Department P sells goods to Department S at a profit of 25% on cost and to Department Q at a profit of 15% on cost. Department S sells goods to P and Q at a profit of 20% and 30% on sales respectively. Department Q sells goods to P and S at 20% and 10% profit on cost respectively. **8**

Departmental Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Manager's commission, but before adjustment of unrealized profits are as below :

	₹
Department P	90,000
Department S	60,000
Department Q	45,000

Stock lying at different Departments at the end of the year are as below:

			Figures in ₹
	DEPARTMENTS		
	P	**S**	**Q**
Transfer from P	–	18,000	14,000
Transfer from S	48,000	–	38,000
Transfer from Q	12,000	8,000	–

Find out correct Departmental Profits after charging Managers' Commission.

Marks

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

(a) A loan account remains out of order as on the date of Balance Sheet of a Bank. The account has been classified as doubtful assets (up to 3 years). Detail of the account is : 4

Outstanding	₹ 7,24,000
ECGC Cover	30% of outstanding (Subject to maximum of ₹ 1,50,000)
Value of security As per valuation on the date of grant of loan As per realizable value as on date of Balance Sheet	 2,25,000 1,75,000

Compute the necessary provision to be made by bank as per applicable rate.

(b) State under which head these accounts should be classified in Balance Sheet as per Schedule VI of the Companies Act : 4

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Long term maturity of finance lease obligation.

Marks

(c) Explain in brief the treatment of Refund of Government Grants in line with AS 12 in the following three situations : **4**

(i) When Government Grant is related to revenue,

(ii) When Government Grant is related to specific fixed assets,

(iii) When Government Grant is in the nature of Promoter's contribution.

(d) W paid a premium to other partners of the firm at the time of his admission to the firm, with a condition that the firm will not be dissolved before expiry of five years. The firm is dissolved after three years. W claims refund of premium. **4**

(i) List the criteria for the calculation of the amount of refund.

(ii) Also list any two conditions when no claim in this respect will arise.

(e) Give four conditions to be fulfilled by a Joint Stock Company to buy back its equity Shares. **4**