Roll No. ....   NOV 2013

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

Time Allowed – 3 Hours   Maximum Marks – 100

INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

YAB

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.

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

Wherever appropriate, suitable assumption(s) should be made and indicated in the answer by the candidates.

Working notes should form part of the answer.

Marks

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

(a) State with reasons, how the following events would be dealt with in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013 : **5**

(i) An agreement to sell a land for ₹ 30 lakh to another company was entered into on 1st March, 2013. The value of land is shown at ₹ 20 lakh in the Balance Sheet as on 31st March, 2012. However, the Sale Deed was registered on 15th April, 2013.

(ii) The negotiation with another company for acquisition of its business was started on 2nd February, 2013. Pradeep Ltd. invested ₹ 40 lakh on 12th April, 2013.

(b) Cost of a machine acquired on 01.04.2009 was ₹ 5,00,000. The machine is expected to realise ₹ 50,000 at the end of its working life of 10 years. Straight-line depreciation of ₹ 45,000 for the year has been charged upto 2011-12. For and from 2012-13, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2009. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2013 in the light of AS-5. **5**

(c) Beekay Ltd. purchased fixed assets costing to ₹ 5,000 lakh on 01.04.2012 payable in foreign currency (US$) on 05.04.2013. Exchange rate of 1 US$ = ₹ 50.00 and ₹ 54.98 as on 01.04.2012 and 31.03.2013 respectively. **5**

The company also obtained a soft loan of US$ 1 lakh on 01.04.2012 payable in three annual equal instalments. First instalment was due on 01.05.2013. You are required to state, how these transactions would be accounted for in the books of accounts ending 31st March, 2013.

(d) (i) Vasudha Ltd. provides following information : **5**

Raw Material stock holding period	:	3.5 months
Work-in progress holding period	:	1 month
Finished goods holding period	:	4.5 months
Debtors collection period	:	6 months

You are required to compute the operating cycle of Vasudha Ltd. What would happen if the trade payables of the company are paid in 14 months-whether these should be classified as current or non-current liability ?

(ii) The management of Kshitij Ltd. contends that the work in progress is not valued since it is difficult to ascertain the same in view of the multiple processes involved. They opine that the value of opening and closing work in progress would be more or less the same. Accordingly, the management had not separately disclosed the work in progress in its financial statements. Comment in line with Revised Schedule VI.

Marks

2. Avi and Bishnu are partners of Abhay & Co. sharing profit and losses in the ratio 3:1 and Bishnu and Joe are partners of Bijoy & Co. sharing profit and losses in the ratio 2:1. On 31st March, 2013, they decided to amalgamate and form a new firm M/S Abeejay & Co., wherein Avi, Bishnu and Joe would be partners sharing profit and losses in the ratio 3:2:1. The Balance Sheets of the two firms on 31st March, 2013 were as under : 16

Liabilities	Abhay & Co.	Bijoy & Co.	Assets	Abhay & Co.	Bijoy & Co.
	₹	₹		₹	₹
Capitals :			Building	3,50,000	2,80,000
Avi	5,31,000		Plant & Machinery	2,00,000	1,50,000
Bishnu	2,00,000	3,97,000	Vehicles	-	90,000
Joe		2,00,000	Furniture	-	10,000
Reserves	12,000	9,000	Office Equipments	38,000	45,000
Sundry Creditors	1,20,000	89,000	Stock in trade	65,000	70,000
Bank O/D	90,000	-	Sundry Debtors	1,00,000	90,000
Due to R & Co.	-	1,00,000	Bank balances	80,000	60,000
			Cash in hand	20,000	-
			Due from R & Co.	1,00,000	-
	9,53,000	7,95,000		9,53,000	7,95,000

The amalgamated firm M/S Abeejay & Co took over the business on the following terms :

(a) Goodwill of Abhay & Co. was worth ₹ 42,000 and that of Bijoy & Co. ₹ 30,000. Goodwill account was not to be opened in the books of the new firm, the adjustments being recorded through capital accounts of the partners.

(b) The following assets were valued as below :

	Abhay & Co.	Bijoy & Co.
	₹	₹
Building	4,00,000	3,00,000
Plant & Machinery	2,50,000	2,00,000
Vehicles	-	98,000
Furniture	-	11,000
Office Equipments	39,000	50,000
Stock in trade	70,000	80,000

(c) Provision for doubtful debt was carried forward at ₹ 4,000 in respect of Debtors of Abhay & Co and ₹ 3,000 in respect of Debtors of Bijoy & Co.

(d) Partners of new firm brought necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to :

(i) Prepare the Balance Sheet of the new firm as on 31st March, 2013.

(ii) Prepare Capital Accounts of the partners in the books of old firms.

Marks

3. (a) M Limited recently made a public issue of debentures. The following information is available in respect of the issue : **8**

(i) 3,00,000 partly convertible debentures of face value and issue price of ₹ 100 per debenture were issued;

(ii) Conversion of 50% of each debenture is to be done on expiry of 6 months from date of close of issue;

(iii) Date of closure of subscription list is 1st June, 2012. Date of allotment is 1st July, 2012.

(iv) Interest on debenture at the rate of 12% is payable from date of allotment;

(v) Equity share of ₹ 10 each are issued at ₹ 50 per share for the purpose of conversion;

(vi) Underwriting commission is 2%;

(vii) 2,25,000 debentures were applied for;

(viii) Interest on debentures is payable half yearly on 30th September and 31st March.

Give Journal entries for all transactions relating to the above, including cash and bank entries for the year ended 31st March, 2013.

(b) The summarised Balance Sheet of Entyce Ltd. as on 31st March, 2013 read as under : **8**

Liabilities :	₹
Share Capital : 4,00,000 equity shares of ₹ 10 each fully paid up	40,00,000
General Reserve	50,00,000
Debenture Redemption Reserve	35,00,000
12% Convertible Debentures, 80,000 Debentures of ₹ 100 each	80,00,000
Other Loans	45,00,000
Current Liabilities and Provisions	90,00,000
	3,40,00,000

Marks

Assets :	
Fixed Assets (at cost less depreciation)	1,50,00,000
Debenture Redemption Reserve Investments	30,00,000
Cash and Bank Balances	40,00,000
Other Current Assets	1,20,00,000
	3,40,00,000

The debentures are due for redemption on 1st April,2013. The terms of issue of debentures provided that they were redeemable at a premium 5% and also conferred option to the debentureholders to convert 25% of their holding into equity shares at a predetermined price of ₹ 11.90 per share and the balance payment in cash.

Assuming that :

(i) Except for debentureholders holding 12,000 debentures in aggregate, rest of them exercised the option for maximum conversion,

(ii) The investments realised ₹ 32,00,000 on sale, and

(iii) All the transactions were taken place on 1st April, 2013 without any lag,

(iv) Premium on redemption of debentures is to be adjusted against General Reserve.

Redraft the Balance Sheet of Entyce Ltd. as on 01.04.2013 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Marks

4. The summarised Balance Sheet of Vasant Ltd. as on 31st March, 2013, being the date of voluntary winding up is as under : **16**

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital :		Land & Building	1,30,000
Issued : 10% Pref. Shares of ₹ 10 each	1,50,000	Sundry Current Assets	4,36,000
10,000 Equity Shares of ₹ 10 each fully paid up	1,00,000	Profit and Loss Account	35,000
5,000 Equity Shares of ₹ 10 each, ₹ 8 per share paid up	40,000	Debenture issue expenses not written off	2,000
13% Debentures	1,50,000		
Mortgage Loan	70,000		
Bank overdraft	30,000		
Trade Creditors	38,000		
Income Tax Arrears (assessment concluded in February, 2013)	25,000		
	6,03,000		**6,03,000**

Mortgage loan was secured against Land & Buildings. Debentures were secured by a floating charge on all assets. The company was unable to meet the payments and therefore the debentureholders appointed a Receiver for the debentureholders. He brought the Land & Buildings to auction and realised ₹ 1,60,000. He also took charge of Sundry Assets of value of ₹ 2,36,000 and realised ₹ 2,00,000. The Bank overdraft was secured by personal guarantee of the directors of the company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 1,950 and by the Liquidator ₹ 3,000. The receiver was not entitled to any remuneration but the Liquidator was to receive 2% fee on the value of assets realised by him. Preference Shareholders has not been paid dividend for period after 31st March, 2011 and interest for the last half year was due to the Debentureholders. Rest of the assets were realised at ₹ 1, 50,000.

Prepare the accounts to be submitted by the Receiver and Liquidator.

Marks

5. Following information has been provided in respect of Watson Power Generation Project : 16

1. Date of commercial operation / work completed date : 1st April, 1995
2. Capital Cost at the beginning of the year 2010-11 : ₹ 135.39 Crore
3. Useful Life : 35 years
4. Details of allowed capital expenditure, details of actual repayment of loan and weighted average rate of interest on loan is as follows :

	2010-11 (₹ in Crore)	2011-12 (₹ in Crore)	2012-13 (₹ in Crore)
Additional Capital Expenditure (allowed above)	1.63	0.98	0.52
Repayment of Loan during the year (net)	0.96	0.87	0.68
Weighted Average Rate of Interest on Loan	7.35%	7.48%	7.50%
Value of Land	0.00	0.00	0.00

5. Depreciation recovered upto 2008-09 = ₹ 49.05 Crore
6. Depreciation recovered in 2009-10 = ₹ 3.26 Crore
7. Cumulative Repayment of Loan upto 2009-10 = ₹ 14.00 Crore

From the above information, calculate the following as per the Central Electricity Commission (Terms and Conditions of Tariff) Regulations, 2009 :

(a) Average Capital Cost

(b) Return on Equity

(c) Interest on Loans

(d) Depreciation.

Marks

6. (a) Martis Ltd. has 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 mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 2013 were as follows : 12

Opening stock as on 1st April, 2012, at cost	₹ 65,000
Purchase at cost	₹ 2,00,000
Sales	₹ 3,00,000

It is further ascertained that :

(1) Shortage of stock found in the year ending 31.03.2013, costing to ₹ 1,000 were written off.

(2) Opening stock on 01.04.12 including goods costing ₹ 6,000 had been sold during the year and had been marked down in the selling price by ₹ 600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 1,200 from a cost of ₹ 15,000. Marked-down stock costing ₹ 5,000 remained unsold on 31.03.13.

(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, 2013 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year.

Marks

(b) From the following information of STP Bank Ltd. pertaining to the financial year 2012-13, compute the provisions to be made in the Profit and Loss Account : 4

	₹ in lakh
Assets	
Standard	30,000
Sub-standard	20,000
Doubtful :	
For one year (secured)	8,000
For two years and three years (secured)	2,500
For more than three years (secured by mortgage of Plant & Machinery ₹ 500 lakh)	2,000
Loss Assets	1,700

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

(a) Classify the following into either operating or finance lease : 4

(i) Lessee has option to purchase the asset at lower than fair value, at the end of lease term;

(ii) Economic life of the asset is 7 years, lease term is 6 years, but asset is not acquired at the end of the lease term;

(iii) Economic life of the asset is 6 years, lease term is 2 years, but the asset is of special nature and has been procured only for use of the lessee;

(iv) Present value (PV) of Minimum lease payment (MLP) = "X". Fair value of the asset is "Y".

Marks

(b) Plymouth Ltd. is engaged in research on a new process design for its product. It had incurred ₹ 10 lakh on research during first 5 months of the financial year 2012-13. The development of the process began on 1st September, 2012 and upto 31st March, 2013, a sum of ₹ 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria. **4**

From 1st April, 2013, the Company has implemented the new process design and it is likely that this will result in after tax saving of ₹ 2 lakh per annum for next five years.

The cost of capital is 10%. The present value of annuity factor of ₹ 1 for 5 years @ 10% is 3.7908.

Decide the treatment of Research and Development Cost of the project as per AS-26.

(c) State the basis on which the following common expenses, the benefit of which is shared by all the departments is distributed among the departments : **4**

(i) Rent, rates and taxes, insurance of building;

(ii) Selling expenses such as discount, bad debts, selling commission and other such selling expenses;

(iii) Carriage Inward;

(iv) Depreciation;

(v) Interest on loan;

(vi) Profit or loss on sale of investment;

(vii) Wages;

(viii) Lighting and Heating Expenses

Marks

(d) Raj & Co. has taken a loan of US$ 20,000 at the beginning of the financial year for a specific project at an interest rate of 6% per annum, payable annually. On the day of taking loan, the exchange rate between currencies was ₹ 48 per 1 US$. The exchange rate at the closing of the financial year was ₹ 50 per 1 US$. The corresponding amount could have been borrowed by the company in Indian Rupee at an interest rate of 11% per annum. Determine the treatment of borrowing cost in the books of accounts. 4

(e) Explain in short, the following principles and term of insurance business: 4

(i) Principle of Indemnity;

(ii) Insurable interest;

(iii) Principle of "UBERRIMAE FIDEI".

(iv) Catastrophic Loss