

Roll No.

MAY 2016

Total No. of Questions – 7

INTERMEDIATE (IPC)

Total No. of Printed Pages – 15

GROUP II - PAPER 3

Time Allowed – 3 Hours

ADVANCED ACCOUNTING

Maximum Marks – 100

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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.

Question No. 1 is compulsory.

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

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

Working notes should form part of the respective answers.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra questions answered shall be ignored.

Marks

1. Answer the following questions :

4×5

=20

(a) With reference to AS 4 “Contingencies and events occurring after the balance sheet date”, state whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet in case of a company which follows April to March as its financial year.

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(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

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- (ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.
- (iii) It sends a proposal to purchase an immovable property for ₹ 30 lakhs in March. The book value of the property is ₹ 20 lakhs as on year end date. However, the deed was registered as on 15th April.
- (iv) The terms and conditions for acquisition of business of another company have been decided by March end. But the financial resources were arranged in April and amount invested was ₹ 40 lakhs.
- (v) Theft of cash of ₹ 2 lakhs by the cashier on 31st March but was detected the next day after the financial statements have been approved by the Directors.

(b) M/s AB Ltd. is in the process of finalizing its account for the year ended 31st March, 2015. The company seeks your advice on the following:

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- (i) The company's sale tax assessment for assessment year 2012-13 has been completed on 14th February, 2015 with a demand of ₹ 5.40 crore. The company paid the entire due under protest without prejudice to its right of appeal. The company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of ₹ 3.70 crore.

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(ii) The company has entered into a wage agreement in May 2015 whereby the labour union has accepted a revision in wage from June 2014. The agreement provides that the hike till May 2015 will not be paid to the employees but will be settled to them at the time of retirement. The company agrees to deposit the arrears in Government Bonds by September 2015.

(c) M/s ABC Ltd. purchased fixed assets for ₹ 50,00,000. Government grant received towards it is 20%. Residual value is ₹ 8,00,000 and useful life is 8 years. Assumed depreciation is on the basis of Straight Line Method. Asset is shown in the Balance Sheet net of grant. After one year, grant becomes refundable to the extent of ₹ 7,00,000 due to non-compliance of certain conditions.

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Pass Journal entries for 2nd year in the books of the company.

(d) M/s Power Track Ltd. purchased a plant for US \$ 50,000 on 31st October, 2015 payable after 6 months. The company entered into a forward contract for 6 months @ ₹ 64.25 per Dollar. On 31st October, 2015 the exchange rate was ₹ 61.50 per Dollar.

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You are required to recognise the profit or loss on forward contract in the books of the company for the year ended 31st March, 2016.

2. P and Q are partners of P & Co., sharing Profit and Losses in the ratio of 3:1 and Q and R are partners of R & Co., sharing Profits and Losses in the ratio of 2:1. On 31st March, 2015, they decide to amalgamate and form a new firm M/s PQR & Co., wherein P, Q and R would be partners sharing profits and

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losses in the ratio of 3:2:1. The Balance Sheets of two firms on the above date are as under :

Liabilities	P & Co. (₹)	R & Co. (₹)	Assets	P & Co. (₹)	R & Co. (₹)
Capitals :			Fixed assets:		
P	2,50,000	—	Building	50,000	60,000
Q	1,80,000	2,20,000			
R		1,20,000	Plant & Machinery	1,60,000	1,70,000
Reserves	60,000	1,50,000			
Sundry Creditors	1,30,000	1,36,000	Office equipment	50,000	46,000
Due to P & Co.	—	1,00,000	Current assets :		
Bank Overdraft	80,000	—	Stock - in - trade	1,20,000	1,40,000
			Sundry Debtors	1,60,000	2,00,000
			Bank balance	40,000	1,00,000
			Cash in hand	20,000	10,000
			Due to R & Co.	1,00,000	—
	7,00,000	7,26,000		7,00,000	7,26,000

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

- (a) Building of P & Co. was valued at ₹ 1,50,000.
- (b) Plant & Machinery of P & Co. was valued at ₹ 2,75,000 and that of R & Co. at ₹ 2,50,000.
- (c) All stock in trade is to be appreciated by 20%.
- (d) Goodwill of P & Co. was valued at ₹ 1,20,000 and of R & Co. at ₹ 60,000, but the same will not appear in the books of PQR & Co.
- (e) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.
- (f) Provisions for doubtful debts has to be carried forward at ₹ 15,000 in respect of debtors of P & Co. and ₹ 30,000 in respect of debtors of R & Co.

You are required to prepare the Balance Sheet of new firm and capital accounts of the partners in the books of old firms.

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3. (a) Following is the summarized Balance Sheet of M/s Complicated Ltd. as 12
on 31st March, 2016 :

Liabilities	Amount (₹)
Equity shares of ₹ 10 each fully paid up	12,50,000
Bonus shares	1,00,000
Share option outstanding Account	4,00,000
Revenue Reserve	15,00,000
Securities Premium	2,50,000
Profit & Loss Account	1,25,000
Capital Reserve	1,00,000
Revaluation Reserve	1,00,000
Unpaid dividends	1,00,000
12% Debentures (Secured)	18,75,000
Advance from related parties (Unsecured)	10,00,000
Current maturities of long term borrowings	16,50,000
Application money received for allotment due for refund	2,00,000
	86,50,000
Assets	Amount (₹)
Fixed Assets	46,50,000
Current Assets	40,00,000
	86,50,000

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The Company wants to buy back 25000 equity shares of ₹ 10 each, on 1st April, 2016 at ₹ 20 per share. Buy back of shares is duly authorised by its Articles and necessary resolution has been passed by the Company towards this. The payment for buy back of shares will be made by the Company out of sufficient bank balance available shown as part of Current Assets.

Comment with your calculations, whether buy back of shares by the Company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares and prepare the Balance Sheet after buy back of shares.

- (b) Mention the ways by which Redeemable Debentures may be redeemed under Companies Act, 2013. 4

4. From the following particulars, prepare a Statement of Affairs and the Deficiency Account for submission to official liquidator of Sun City Development Ltd., which went into liquidation on 31st March, 2016. 16

Liabilities	(₹)	(₹)
6,00,000 Equity shares of ₹ 10 each, ₹ 8 paid-up		48,00,000
6% 2,00,000 Preference shares of ₹ 10 each	20,00,000	
less : call in arrear	1,00,000	19,00,000
5% Debentures having a floating charge on the assets (interest paid up to 30 th September, 2015)		20,00,000
Mortgage on Land & Building		16,00,000
Trade Payable		53,10,000
Wage Payable		4,00,000
Secretary's Salary Payable @ ₹ 10,000 p.m.		60,000
Managing Director's Salary Payable @ ₹ 30,000 p.m.		1,20,000

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Assets	Estimated to produce (₹)	Book value (₹)
Land & Building	26,00,000	24,00,000
Plant & Machinery	26,00,000	40,00,000
Tools & Equipments	80,000	4,00,000
Patents & Copyrights	6,00,000	10,00,000
Inventories	14,80,000	17,40,000
Investments in the hand of a Bank for an Overdraft of ₹ 38,00,000	34,00,000	36,00,000
Trade Receivables	12,00,000	18,00,000

On 31st March, 2011 the Balance Sheet of the Company showed a General Reserve of ₹ 8,00,000 accompanied by a debit balance of ₹ 5,00,000 in the Profit & Loss Account.

In 2012 the Company made a profit of ₹ 8,00,000 and declared a dividend of 10% on Equity Shares.

The Company suffered a total loss of ₹ 21,80,000 besides loss of stock due to fire to the tune of ₹ 8,00,000 during financial years ending March 2013, 2014 and 2015. For the financial year ended 31st March, 2016, accounts were not made.

The cost of winding-up is expected to be ₹ 3,00,000.

- 5 (a) From the following information of Wealth Bank Limited, Prepare Profit and Loss Account for the year ended 31st March, 2016 : 10

Particulars	₹ In Lakhs	Particulars	₹ In Lakhs
Interest on Cash Credit	364	Interest paid on Recurring Deposits	17
Interest on Overdraft	150	Interest paid on Savings Bank Deposits	12
Interest on Term Loans	308	Auditor's Fees and Allowances	24
Income on Investments	168	Directors' Fees and Allowances	50
Interest on Balance with RBI	30	Advertisements	36
Commission on remittances and transfer	15	Salaries, allowances and bonus to employees	248
Commission on Letters of Credit	24	Payment to Provident Fund	56
Commission on Government Business	16	Printing & Stationery	28
Profit on Sale of Land & Building	5	Repairs & Maintenance	10
Loss on exchange transactions	10	Postage, courier & telephones	16
Interest paid on Fixed Deposits	25		

Other Information :

	₹ in lakhs	
	Earned	Collected
(i) Interest on NPA is as follows :		
Cash Credit	164	80
Term Loans	90	20
Overdraft	150	50
(ii) Classification of Non-Performing Advances :		
Standard		60
Sub-standard – fully secured		22
Doubtful assets – fully unsecured		40
Doubtful assets covered fully by security :		
Less than 1 year		6
More than 1 year upto 3 years		3
More than 3 years		2
Loss		38

(iii) Investments

Bank should not keep more than 25% of its investment as 'held-for-maturity' investment; the market value of its rest 75% investment is ₹ 3,95,00,000 as on 31.03.2016.

(iv) Provide 35% of the profits towards provision for taxation.

(v) Transfer 20% of the profit to Statutory Reserves.

(b) Write short notes on the following principles and terms of Insurance **6**

Business :

(i) Principle of Indemnity

(ii) Insurable Interest

(iii) Principle of UBERRIMAE FIDEI.

(iv) Catastrophic Loss

6. (a) There is transfer / sale among the three departments as below : **8**

Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 20% profit on cost.

Department Y sells goods to X and Z at a profit of 15% and 20% on sales respectively.

Department Z charges 20% and 25% profit on cost to Departments X and Y respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated.

Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

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₹

Department X	1,80,000
Department Y	1,35,000
Department Z	90,000

Stocks lying at different Departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
Transfer from Department X	–	75,000	57,000
Transfer from Department Y	70,000	–	60,000
Transfer from Department Z	30,000	25,000	–

Find out the correct departmental profits after charging Managers' commission.

- (b) M/s ABC & Co. has head office at New York (U.S.A.) and branch in Bangalore (India). Bangalore branch is an integral foreign operation of M/s ABC & Co. 8

Bangalore branch furnishes you with its trial balance as on 31st March, 2015 and the additional information given thereafter :

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	Dr.	Cr.
	(Rupees in thousands)	
Stock on 1 st April, 2014	300	—
Purchases and Sales	800	1,200
Sundry Debtors & Creditors	400	300
Bills of Exchange	120	240
Wages & Salaries	560	—
Rent, Rates & Taxes	360	—
Sundry Charges	160	—
Computers	240	—
Bank Balance	420	—
New York Office A/c	—	1,620
	3,360	3,360

Additional Information :

- (a) Computers were acquired from a remittance of US \$ 6,000 received from New York head office and paid to the suppliers. Depreciate computers at 60% for the year.
- (b) Unsold stock of Bangalore branch was worth ₹ 4,20,000 on 31st March, 2015.
- (c) The rates of exchange may be taken as follows:
- On 01.04.2014 @ ₹ 55 per US \$
 - On 31.03.2015 @ ₹ 60 per US \$
 - Average exchange rate for the year @ ₹ 58 per US \$
 - Conversion in \$ shall be made up to two decimal accuracy.

You are asked to prepare in US dollars the revenue statement for the year ended 31st March, 2015 and the balance sheet as on that date of Bangalore branch as would appear in the books of New York head office of ABC & Co. You are informed that Bangalore branch account showed a debit balance of US \$ 29845.35 on 31.3.2015 in New York books and there were no items pending reconciliation.

7. Answer any **four** of the following :
- | | |
|---|------------|
| | 4×4 |
| | =16 |
| (a) What are the distinction between an Ordinary Partnership Firm and a Limited Liability Partnership (LLP) ? | 4 |
| (b) With reference to AS 29 "Provisions, Contingent Liabilities and Contingent Assets", define : | 4 |
| (i) A Provision | |
| (ii) A Liability | |
| (iii) A Contingent Asset | |
| (iv) Present Obligation | |
| (c) Write short note on classification of advances in case of Banking Company. | 4 |
| (d) Give the basis of allocation of the following common expenditure among different departments : | 4 |
| (i) Insurance of Building | |
| (ii) Discount and bad debts | |
| (iii) Discount received | |

- (iv) Repairs and maintenance of capital assets
 - (v) Advertisement expenses
 - (vi) Labour welfare expenses
 - (vii) PF/ESI contributions
 - (viii) Carriage inward
- (e) Write short note on 'Suspension of Capitalisation' in context of Accounting Standard 16. 4
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