INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

MAY 2019

Roll No. ……………………

Total No. of Questions – 7 | Total No. of Printed Pages – 16

Time Allowed – 3 Hours | Maximum Marks – 100

SAB2

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.

Attempt any five questions out of the remaining six questions.

Working notes should form part of the answers.

Marks

1. (a) Legal Ltd. is engaged in the manufacturing of rubber. For its plant, it required machineries of latest technology. It usually resorts to Long Term Foreign Currency Borrowings for its fund requirements. On 1st April, 2017, it borrowed US $1 million from International Funding Agency, USA when exchange rate was 1 $ = ₹ 63. The funds were used for acquiring machineries on the same date to be used in three different plants. The useful life of the machineries is 10 years and their residual value is ₹ 30,00,000. **5**

Earlier also the company used to purchase machineries out of foreign borrowings. The exchange differences arising on such borrowings were charged to profit and loss account and were not capitalized even though the company had an option to capitalize it as per notified AS 11.

Marks

Now for this new purchase of machinery, Legal Ltd, is interested to avail the option of capitalizing the same to the cost of asset. Exchange rate on 31st March, 2018 is 1 US \$ = ₹ 62. Assume that on 31st March, 2018, Legal Ltd. is not having any old long term foreign currency borrowings except for the amount borrowed for machinery purchased on 1st April, 2017.

Comment whether Legal Ltd. can capitalize the exchange difference to the cost of asset on 31st March, 2018. If yes, then calculate the depreciation amount on machineries as on 31st March, 2018.

(b) Sun Limited leased a machine to Moon Limited on the following terms : 5

	(Amount in ₹)
Fair value at inception of lease	50,00,000
Lease Term	4 Years
Lease Rental per annum	16,00,000
Guaranteed residual value	3,00,000
Expected residual value	4,50,000
Implicit Interest rate	15%

Discounted rates for 1st year, 2nd year, 3rd year and 4th year are 0.8696, 0.7561, 0.6575 and 0.5718 respectively.

Calculate the value of the Lease Liability and ascertain Unearned Finance Income as per AS-19.

Marks

(c) Net Profit for FY 2016-17 — 30,00,000 **5**

Net Profit for FY 2016-17	30,00,000
Net Profit for FY 2017-18	50,00,000
No. of shares outstanding prior to rights issue	20,00,000 shares
Rights Issue Price	₹ 20
Last day to exercise rights	1st June, 2017

Right issue is one new share for each five equity share outstanding (i.e. 4,00,000 new shares)

Fair value of one equity share immediately prior to exercise of rights on 1st June, 2017 was ₹ 26.00.

Compute Basic Earnings Per Share for FY 2016-17, FY 2017-18 and restated EPS for FY 2016-17.

(d) How would you treat the followings in the accounts in accordance with AS-12 'Government Grants' ? **5**

(a) ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(b) ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area.

(c) ₹ 10 Lakhs Grant received from the Central Government on installation of anti-pollution equipment.

2. A & B are partners in AB & Co. sharing Profit/Loss in the ratio of 3:2 and B & C are partners in BC & Co. sharing Profit/Loss in the ratio of 2:1 carrying on same type of business. On 1st April, 2019, A, B & C decides to form a new Partnership Firm ABC & Co. by amalgamating AB & Co. and BC & Co. A, B & C will share Profit/Loss in the ratio of 3:2:1 in ABC & Co. **16**

 Marks

Their Balance Sheets on 1st April, 2019 were as under:

Liabilities	AB & Co. (₹)	BC & Co. (₹)	Assets	AB & Co. (₹)	BC & Co. (₹)
Capital			Building	20,000	10,000
A	66,000	–	Plant & Machinery	21,000	29,000
B	67,000	50,000	Vehicles	15,000	5,000
C	–	48,000	Furniture	4,000	7,500
Reserves	10,000	5,000	Stock	50,500	19,500
Sundry Creditors			Sundry Debtors		
- Others	41,000	38,000	- Others	43,500	37,000
- BC & Co.	15,000	–	- AB & Co.	–	15,000
- XYZ & Co.	–	9,000	- XYZ & Co.	25,000	–
			Cash at Bank	15,000	18,000
			Cash in Hand	5,000	9,000
	1,99,000	**1,50,000**		**1,99,000**	**1,50,000**

Following are the terms for the amalgamation :

(a) Goodwill will be valued at ₹ 25,000 for AB & Co. and ₹ 18,000 for BC & Co. But same will not appear in the books of the new firm.

(b) Building was taken over as follows:

- Building of AB & Co. was valued with upward revision of ₹ 10,000
- Building of BC & Co. valued at ₹ 16,000.

(c) Plant & Machinery to be taken over with downward valuation by ₹ 2,000 of AB & Co. and with new value of ₹ 32,000 of BC & Co.

(d) Value of vehicles to be taken over was reduced by ₹ 5,000 of AB & Co. and reduced to ₹ 2,000 of BC & Co.

(e) Excess/Deficit Capital taking A's Capital as base with reference to share in profits are to be transferred to Current Accounts.

You are required to prepare Balance Sheet of the new firm and Capital Accounts of the partners in the books of old firm.

3. (a) Following is the summarized Balance Sheet of Competent Limited as on 31st March, 2013 : 8

Liabilities	₹	Assets	₹
Equity Shares of 10 each		Fixed Assets	61,80,000
fully paid up	15,00,000	Current Assets	30,00,000
Revenue reserve	18,00,000		
Securities Premium	3,00,000		
Profit & Loss Account	1,50,000		
Secured Loans:			
12% Debentures	22,50,000		
Unsecured Loans	12,00,000		
Current maturities of long			
term borrowings	19,80,000		
Total	**91,80,000**	**Total**	**91,80,000**

Marks

The company wants to buy back 30,000 equity shares of ₹ 10 each, on 1st April, 2013 at ₹ 20 per share. Buy back of shares is duly authorized 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 company is within the provisions of the Companies Act, 2013. If yes, pass necessary journal entries towards buy back of shares.

(b) Diamond Ltd. came out with an issue of 50,00,000 Equity Shares of ₹ 10 each, ₹ 2.5 to be paid at application and ₹ 3.5 to be paid at allotment. The Promoters took 20% of the issue and balance was offered to Public. The issue was underwritten by Gold, Silver, Copper & Iron equally. Underwriters were entitled to the maximum commission permitted by the law on the amounts underwritten. **8**

Gold, Copper, Silver & Iron also agreed on 'Firm' Underwriting of 1,00,000, 50,000, 75,000 & 25,000 shares respectively.

Subscriptions for 35,00,000 (including firm underwriting applications by under writers) Equity Shares were received with Marked forms for the Underwriters as under:

Gold -15,00,000, Copper-5,00,000, Iron -2,50,000, Silver-10,00,000

You are required to (Assuming Benefit of Underwriting is not given to Underwriters):

1. Compute the Underwriters' Liability in number of shares.
2. Compute the amount payable to Underwriters.
3. Pass the Journal entries (related to transactions with underwriters only) in the books of Diamond Ltd.

Marks

4. The following were summarized Balance sheet of Namo Ltd. and Raga Ltd. as at 31.03.2011. **16**

	Namo Ltd. (₹ in lakhs)	Raga Ltd. (₹ in lakhs)
Liabilities		
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	–
Foreign Project Reserve	–	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,237.5
12% Debentures	–	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
	50,100	**18,750**
Assets		
Land and Buildings	9,000	–
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5
Cost of Issue of Debentures	–	75
	50,100	**18,750**

All the bills receivable held by Raga Ltd. were Namo Ltd.'s acceptances.

On 1st April 2011, Namo Ltd. took over Raga Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Namo Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Raga Ltd. It was also agreed that 12% debentures in Raga Ltd. would be converted into 13% debentures in Namo Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Particulars	**Namo Ltd.**	**Raga Ltd.**
	(₹ in lakhs)	
Trade Payables		
Creditors	1,620	694.5
Bills Payable	180	–
	1,800	**694.5**
Trade receivables		
Debtors	3,180	1,530
Bills Receivables	–	120
	3,180	**1,650**

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Namo Ltd. You are required to:

(a) Pass journal entries in the books of Namo Ltd. and

(b) Prepare Namo Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the Raga Ltd. Company is not transferred to the Namo Ltd. Company.

Marks

5. (a) From the following balances extracted from the books of ABC General Insurance Company Ltd. as on 31st March, 2017, you are required to prepare Revenue Accounts in respect of Fire and Marine Insurance Business for the year ended 31st March, 2017. **8**

Particulars	Fire (₹)	Marine (₹)
Outstanding Claim as on 1st April, 2016	56,000	14,000
Claims Paid	2,00,000	1,60,000
Reserved for unexpired Risk as on 1st April, 2016	4,00,000	2,80,000
Premium Received	9,00,000	6,60,000
Agent's Commission	80,000	40,000
Expenses of management (Inclusive of legal expenses regarding settlement of claims ₹ 10,000 and ₹ 8,000 respectively for Fire and Marine business)	1,20,000	90,000
Re Insurance Premium —Dr.	50,000	30,000

The following additional points are also to be taken into consideration:

(1) Claims outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance ₹ 20,000

(b) Marine Insurance ₹ 30,000

(2) Premium outstanding as on 31st March, 2017 were as follows:

(a) Fire Insurance ₹ 60,000

(b) Marine Insurance ₹ 40,000

(3) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of Fire & Marine Insurance respectively.

(4) Expenses of management due on 31st March, 2017 were ₹ 20,000 for Fire Insurance and ₹ 10,000 in respect of Marine Insurance.

Marks

(b) The following balances appear in books of "Saregama Bank Limited" : 8

Bills Discounted (During FY 2018-19) ₹ 4,80,00,000.00

Discount Received (During FY 2018-19) ₹ 15,20,000.00

Rebate on bills discounted (as on 1.4.2018) ₹ 2,25,000.00

Details of bills discounted are as follows:

Value of Bill	Due Date	Rate of Discount
25,00,000.00	16.06.2019	10%
50,00,000.00	25.05.2019	11%
40,00,000.00	01.07.2019	12%

You are required:

(1) To calculate the rebate on bills discounted as on 31.03.2019

(2) To pass necessary journal entries (Narration not required)

(3) Ledger account of Rebate on bills discounted

(4) Ledger account of Discount on Bills

6. (a) M/s. Bombay Cotton has 2 Departments Y and Z. The following information is provided for the year ended 31st March, 2019: 8

Particulars	Department Y (₹)	Department Z (₹)
Opening Stock	60,000	40,000
Purchases	1,20,000	3,05,400
Wages	70,000	32,000
Sales	3,10,300	3,72,700
Closing Stock	23,700	40,700

Marks

Other Expenses are:

Particulars	Amount in (₹)
Salaries	30,000
Rent	9,000
Advertisement	24,000
General Expenses	3,000
Depreciation	18,000

Expenses are to be allocated between the Departments in the ratio of their Gross Profit.

Department Y sells goods to Department Z at a profit of 25% on sales.

Department Z sells goods to Department Y at a profit of 28% on cost.

Each Department Managers are entitled to 10% Commission on Net Profit subject to unrealized profit on departmental sales being eliminated.

Stock Transfer during the year from Department Y to Department Z was ₹ 40,000 and from Department Z to Department Y was ₹ 50,000.

Closing Stock includes transfer from Department Y to Department Z ₹ 12,000 and from Department Z to Department Y ₹ 21,200. Opening Stock do not include any inter Department transfer.

Prepare Departmental Trading and Profit & Loss Account for the year ended 31st March, 2019.

Marks

(b) The Washington branch of ABC India sent the following trial balance as on 31st December, 2017. **8**

Particular	$	$
Head office A/c	–	13,680
Sales	–	50,400
Debtors and creditors	2,880	2,040
Machinery	14,400	–
Cash at bank	720	–
Stock, 1 January, 2017	6,720	–
Goods from H.O.	38,400	–
Expenses	3,000	–
	66,120	**66,120**

In the books of head office, the Branch A/c stood as follows:

Washington Branch A/c

Particular	₹	Particular	₹
To Balance b/d	4,86,000	By Cash	23,25,600
To Goods sent to branch	23,55,600	By Balance c/d	5,16,000
	28,41,600		**28,41,600**

Goods are sent to the branch at cost plus 10% and the branch sells goods at invoice price plus 25%. Machinery was acquired on 31st January, 2012, when $ 1.00 = ₹ 46.

Exchange rate per US$ were:

1st January, 2017	₹ 64
31st December, 2017	₹ 66
Average Rate	₹ 65

 Marks

Machinery is depreciated @ 10% on written down value basis.

The branch manager is entitled to a commission of 5% on the profits of the branch.

You are required to prepare in the books of Head Office:

(i) Branch Trading & Profit & Loss A/c in dollars.

(ii) Convert the Trial Balance of branch into Indian currency

(iii) Branch Trading & Profit and Loss Account in Rupees

(iv) Branch Account.

7. Answer any **four** of the followings : **16**

(a) (i) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 40,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 16,48,000. **4**

Calculate liquidator's remuneration, if the surplus is insufficient to pay off unsecured creditors, in total.

(ii) 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 ₹ 37,50,000 against which payment was made as follows:

Liquidation Expenses	₹ 37,500
Secured Creditors	₹ 15,00,000
Preferential Creditors	₹ 1,12,500

The amount due to Unsecured Creditors was ₹ 22,50,000. You are asked to calculate the total Remuneration payable to Liquidator.

Calculation shall be made to the nearest multiple of a rupee.

Marks

(b) During 2016-17, an enterprise incurred costs to develop and produce a routine low risk computer software product, as follows: **4**

Particular	(₹)
Completion of detailed program and design (Phase 1)	50,000
Coding and Testing (Phase 2)	40,000
Other coding costs (Phase 3 & 4)	63,000
Testing costs (Phase 3 & 4)	18,000
Product masters for training materials (Phase 5)	19,500
Packing the product (1,500 units) (Phase 6)	16,500

After completion of phase 2, it was established that the product is technically feasible for the market.

You are required to state how the above referred cost to be recognized in the books of accounts.

(c) Compute the amount of Provisions to be made in Profit and Loss Account of SG Bank for the year ending 31st March, 2019. **4**

Assets	₹ in lakhs
Standard	10,000
(includes ₹ 1,000 lakhs to Commercial Real Estate – Residential Housing Sector CRE-RH)	
Sub-standard Secured	5,000
Sub-Standard Unsecured	2,000
(includes ₹ 500 lakhs for infrastructure loans accounts where ESCROW accounts are available)	
Doubtful Advance Secured	
- Upto 1 Year	1,000
- 1 Year and upto 3 Years	500
- Above 3 Years	200
- Unsecured	300
Loss Assets	500

Marks

(d) Balance Sheet of Ram & Co. on 31st March, 2017 is given below: 4

Liabilities	₹	Assets	₹
Capital	50,000	Fixed Assets	69,000
Profit and Loss A/c	29,000	Stock in Trade	43,000
10% Loan	43,000	Trade Receivables	10,000
Trade Payables	18,000	Deferred Expenditure	15,000
		Bank	3,000
	1,40,000		**1,40,000**

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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, 2018 was ₹ 54,000.

ii. Firm's sales and purchases for the year 2017-18 amounted to ₹ 3.55 lacs and ₹ 2.50 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 2017-18 were ₹ 16,500.

v. Deferred Expenditure is normally amortised equally over 4 years starting from F.Y. 2016-17 i.e. ₹ 5,000 per year.

vi. Out of debtors worth ₹ 10,000, collection of ₹ 4,000 depends on successful redesign 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, 2018 by assuming it is not a Going Concern.

Marks

(e) The Paid-up capital of S Limited amounted to ₹ 5,00,000 Equity Shares of ₹ 10 each. Due to continuous loss incurred by the company, the following scheme of Reconstruction has been approved for S Limited on 1st April, 2019. **4**

(i) In lieu of present holding the Equity Shareholders are to receive :-

(a) Fully Paid Equity Shares equal to 3/5th of their holding.

(b) 8% Preference Shares fully paid to the extent of 20% of the above new Equity Shares.

(c) 10% Second Debentures of ₹ 40,000.

(ii) An issue of 8% Debentures First Debentures of ₹ 1,00,000 was made and fully subscribed for Cash,

(iii) The Assets were reduced as follows:-

(a) Building from ₹ 2,00,000 to ₹ 1,50,000

(b) Plant & Machinery from ₹ 1,50,000 to ₹ 1,30,000

(c) Goodwill from ₹ 30,000 to Nil

Show the Journal Entries in the books of S Limited to give effect of the scheme of Reconstruction.