

Roll No.

DEC 2021

Total No. of Questions – 7

**INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING**

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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Answer 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.

Questions No. 1 is compulsory.

Attempt any five questions out of the remaining six questions.

Working notes should form part of the answer.

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1. (a) The management of Pluto Limited has sought your opinion with relevant reasons, whether the following transactions will be treated as changes in Accounting Policy or not for the year ended 31st March, 2021. Please advise them in the following situations in accordance with the provisions of Accounting Standard 5 :
- (i) During the year ended 31st March, 2021, the management has introduced a formal retirement gratuity scheme in place of ad-hoc ex-gratia payments to its employees on retirement.
- (ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees would receive a pension of ₹ 25,000 per month. Earlier there was no such scheme of pension in the organization.
- (iii) Provision for doubtful Trade Receivables was created @ 2.5% till 31st March, 2020. From 1st April, 2020, the rate of provision has been changed to 5 %.

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- (iv) For the year ended 31st March, 2021 there was a change in the cost formula in measuring the cost of Inventories.
- (v) Till the end of the previous year, Computers were depreciated on Straight Line Basis over a period of 5 years. From current year, the useful life of Computers has been changed to 3 years.
- (b) (i) A Ltd. entered into an agreement to sell its Plot, which is included in the Balance Sheet at ₹ 15 Lakhs, to B Ltd. for ₹ 50 Lakhs. The agreement to sell was concluded on 15th March, 2021 and the Sale deed was registered on 4th May, 2021. **5**
- (ii) Cheque Collected by Company's employee from Company's Trade Receivables on or before 31st March, 2021 were presented for payment on 02.04.2021.
- (iii) The company declared a dividend of 15% on its share capital of ₹ 20 crores for the F.Y. 2020-21 on 10.05.21.
- (iv) A Major fire broke out in the factory premises on 05.04.2021 and destroyed machinery worth about ₹ 5 crores.

The financial statements for the F.Y. 2020-2021 were approved by the board on 15th June, 2021. How will you treat the above in the Balance Sheet of A Ltd. as on 31st March, 2021 in accordance with AS-4 ?

- (c) Surya Ltd. had the following transactions during the year ended 31st March, 2021. **5**
- (i) It acquired the business of Gomati Limited on a going concern basis for ₹ 25,00,000 on 1st June, 2020. The fair value of the Net Assets of Gomati Limited was ₹ 18,75,000. Surya Ltd. believes that due to popularity of the products of Gomati Limited in the market, its goodwill exists.

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- (ii) On 20th August, 2020, Surya Ltd. incurred costs of ₹ 6,00,000 to register the patent for its product. Surya Ltd. expects the Patent's economic life to be 8 years.
- (iii) On 1st October, 2020, Surya Ltd. has taken a franchise to operate an ice cream parlour from Volga Ltd. for ₹ 4,50,000 and at an Annual Fee of 10 % of Net Revenues (after deducting expenditure). The franchise expires after six years. Net Revenue for the year ended 31st March, 2021 amounted to ₹ 1,50,000.

Surya Ltd. follows an accounting policy to amortize all Intangibles on Straight Line basis (SLM) over the maximum period permitted by the Accounting Standards taking a full year amortization in the year of acquisition. Goodwill on acquisition of business is to be amortized over 5 years. (SLM).

Prepare a Schedule showing the Intangible Assets section in the Balance Sheet of Surya Ltd. as at 31st March, 2021.

- (d) ABC Builders Limited had borrowed a sum of US \$ 15, 00,000 at the beginning of Financial Year 2020-21 for its residential project at LIBOR + 4 %. The interest is payable at the end of the Financial Year. At the time of availing the loan, the exchange rate was ₹ 72 per US \$ and the rate as on 31st March, 2021 was ₹ 76 per US \$. If ABC Builders Limited borrowed the loan in Indian Rupee equivalent, the pricing of loan would have been 9.50%. Compute Borrowing Cost and exchange difference for the year ending 31st March, 2021 as per applicable Accounting Standards. (Applicable LIBOR is 1%).

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2. A and B are partners of AB & Co. sharing Profit and Losses in the ratio of 4 : 1 and B and C are partners of BC & Co., sharing profits and losses in the ratio of 2 : 1. On 31st March, 2021, they decided to amalgamate and form a new firm namely M/s. ABC & Co., wherein A, B and C would be partners sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheets of two firms on the above date are as under :

| Liabilities | AB & Co. ₹ | BC & Co. ₹ | Assets | AB & Co. ₹ | BC & Co. ₹ |
|-----------------------------|-----------------|-----------------|-------------------------|-----------------|-----------------|
| Partners' Cap. a/c : | | | Fixed assets : | | |
| A | 3,50,000 | — | Building | 1,10,000 | 90,000 |
| B | 1,50,000 | 2,50,000 | Plant & | | |
| C | — | 1,20,000 | machinery | 1,80,000 | 1,34,000 |
| Reserves | 39,000 | 1,47,000 | Furniture | 24,000 | 26,000 |
| Sundry creditors | 90,000 | 1,15,000 | Current assets : | | |
| Due to AB & Co. | — | 75,000 | Stock-in-trade | 80,000 | 1,00,000 |
| Loan from Bank | 50,000 | | Sundry debtors | 1,40,000 | 1,80,000 |
| | | | Bank balance | 45,000 | 1,65,000 |
| | | | Cash in hand | 25,000 | 12,000 |
| | | | Due from BC & | | |
| | | | Co. | 75,000 | — |
| | 6,79,000 | 7,07,000 | | 6,79,000 | 7,07,000 |

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

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- (i) The assets and liabilities of AB & Co. and BC & Co. are to be valued as under :

| Particulars | AB & Co. ₹ | BC & Co. ₹ |
|---|--------------------------------------|--------------------------------------|
| Building | No change | 1,50,000 |
| Plant & machinery | 2,40,000 | 1,90,000 |
| Stock-in-trade | to be appreciated by 10% | to be appreciated by 10% |
| Goodwill (Note (a)) - to be valued at | 5 year's purchase of super profit | 6 year's purchase of super profit |
| Provision for doubtful debts to be created | 14,000 | 30,000 |

Note the followings :

- (a) Goodwill should not appear in the books of ABC & Co. For the purpose of goodwill valuation, actual profit to be considered are ₹ 1,20,000 and ₹ 81,600 for AB & Co. and BC & Co. respectively and normal rate of return for both firms is 18% per annum of Fixed Capital.
- (b) All other assets and liabilities, appearing in the balance sheet of AB & Co. and BC & Co. are taken over by ABC & Co. at book value just before amalgamation.
- (c) An unrecorded liability of ₹ 15,300 of AB & Co. must also be taken over by ABC & Co. The Sundry creditors of AB & Co. do not include this unrecorded liability.

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(ii) Partners of new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit-sharing ratio.

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

3. (a) A company issued 2,00,000 shares of ₹ 10 each at a premium of ₹ 15. 8
The other details in this regard are as follows :

| Underwriter | No. of shares underwritten | Firm underwriting | No. of marked application |
|-------------|----------------------------|-------------------|---------------------------|
| P | 1,20,000 | 15,000 | 25,000 |
| Q | 50,000 | 10,500 | 32,000 |
| R | 30,000 | 20,000 | 9,500 |

Other Information :

- (i) The marked applications are excluding firm underwriting.
- (ii) Total subscriptions received by the company (excluding firm underwriting and marked applications) were 32,500 shares.
- (iii) Commission payable to underwriters is at 6% of the issue price.
- (iv) The underwriting contract provides that credit for unmarked applications will be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

Based on the above information, determine the liability of each underwriter (number of shares), compute the amounts payable or due from underwriters and Pass Journal Entries in the books of the company relating to underwriting.

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(b) Azad Limited grants 100 Stock Options to each of its 800 employees **8**

on 1st April, 2017 for ₹ 20 (Face Value ₹ 10) depending upon the employment of the employees at the time of vesting of options.

Options would be exercisable within a year it is vested. The shares of Azad Limited are trading on the Bombay Stock Exchange at ₹ 50 per Share. These options will vest at the end of year 1 if the earning of Azad Limited is 14% or it will vest at the end of year 2 if the average earning of 2 years is 12 % or lastly it will vest at the end of the third year if the average earning of 3 years will be 10%.

4,000 unvested options lapsed on 31st March, 2018. 3,200 unvested options lapsed on 31st March, 2019 and lastly 2,800 unvested options lapsed on 31st March, 2020.

The earnings of Azad Limited during the years ended 31st March, 2018, 31st March, 2019 and 31st March, 2020 stood at 12 %, 10 % and 8 % respectively.

680 employees exercised their vested options within a year i.e. during 2020-21 Financial year and the remaining options were not exercised at the end of the contractual period.

Pass Journal entries right from the date of grant to record the above transactions in the books of Azad Limited.

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4. A Limited and B Limited are carrying on business of same nature. On 31st March, 2021 their summarized Balance Sheet was as follows :

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| | A Ltd. (₹) | B Ltd. (₹) |
|---------------------------------------|------------------|------------------|
| Share Capital | | |
| – Equity Shares 10 each (Fully Paid) | 12,00,000 | 7,20,000 |
| – 10% Preference Shares of ₹ 100 each | 6,00,000 | – |
| – 8% Preference Shares of ₹ 100 each | – | 5,00,000 |
| General Reserve | 3,00,000 | 2,50,000 |
| Investment Allowance Reserve | – | 60,000 |
| Security Premium | 2,40,000 | – |
| Export Profit Reserve | 1,80,000 | 1,20,000 |
| Profit & Loss Account | 2,16,000 | 1,92,000 |
| 9% Debentures ₹ 10 each) | 3,00,000 | 2,00,000 |
| Secured Loan | – | 3,60,000 |
| Sundry Creditors | 3,12,000 | 2,04,000 |
| Bills Payable | 75,000 | 1,00,000 |
| Other Current Liabilities | 50,000 | 75,000 |
| | 34,73,000 | 27,81,000 |
| Land and Building | 10,80,000 | 8,40,000 |
| Plant and Machinery | 6,00,000 | 5,60,000 |
| Office Equipment | 3,45,000 | 2,10,000 |
| Investments | 96,000 | 3,00,000 |
| Stock in Trade | 6,30,000 | 4,20,000 |
| Sundry Debtors | 4,90,000 | 3,20,000 |
| Bills Receivables | 60,000 | 70,000 |
| Cash at Bank | 1,72,000 | 61,000 |
| | 34,73,000 | 27,81,000 |

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A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms :

- (a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.
- (b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected.
- (c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.
- (d) All the Bills Receivable of A Limited were accepted by B Limited.
- (e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.
- (f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger.

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5. (a) Zodiac General Insurance Company Limited has furnished the following data in respect of the Fire Insurance business conducted by it during the year ended 31st March, 2021.

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| Particulars | Direct Business (₹) | Reinsurance (₹) |
|---|---------------------|-----------------|
| Premium Received | 60,20,000 | 6,60,000 |
| Premium Paid | | 3,92,000 |
| Claims paid during the year | 39,76,000 | 4,08,000 |
| Claims Payable : | | |
| 1 st April, 2020 | 5,48,000 | 76,000 |
| 31 st March, 2021 | 5,90,400 | 56,000 |
| Claims Received | | 3,16,000 |
| Claims Receivable : | | |
| 1 st April, 2020 | | 60,000 |
| 31 st March, 2021 | | 1,00,000 |
| Expenses of Management | 2,50,000 | |
| Interest & Dividend Received (Net of TDS) | 16,500 | |
| Income Tax Deducted (TDS) on above | 1,500 | |
| Commission on - | | |
| Insurance accepted | 1,28,000 | 12,000 |
| Insurance ceded | | 14,400 |

The following additional information is also available :

- (1) Expenses of Management include ₹ 36,000 towards Surveyor's fees and ₹ 44,000 towards Legal expenses for settlement of claims.

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- (2) Reserve for Unexpired Risk is to be maintained at 40 %. The balance of Reserve for Unexpired Risk as on 1st April, 2020 was ₹ 22,72,000.

You are required to prepare the Revenue Account in the prescribed form for the year ended 31st March, 2021.

- (b) The following are the Capital funds of Shreya Bank (Commercial).

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₹ in Crores

| | |
|--|-------|
| Paid up Equity Share Capital | 950 |
| Statutory Reserve | 380 |
| Share Premium | 250 |
| Capital Reserve (of which ₹ 26 Crores were due to Revaluation of Assets and balance due to Sale of Capital Assets) | 118 |
| Assets : | |
| (a) Cash Balances with RBI | 78 |
| (b) Balance with other Banks | 240 |
| Other Investments | 98 |
| Loans and Advances : | |
| (a) Guaranteed by the Government | 600 |
| (b) Granted to Staff of Bank, fully covered by Superannuation Benefits & Mortgage. | 800 |
| (c) Other Loans & Advances | 6,000 |
| Premises, Furniture & Fixtures | 100 |
| Intangible Assets | 20 |

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| Off Balance Sheet Items : | |
|---|-------|
| (a) Guarantees and Other Obligations | 1,000 |
| (b) Acceptance, Endorsements and Letter of Credit | 6,000 |

You are required to segregate the Capital Funds into Tier I and Tier II Capitals and also to find out the Risk Adjusted Asset and Risk Weighted Assets Ratio.

6. (a) On 31st December 2020, the following is the Trial Balance of the London Branch of Alpha & Co. whose Head Office is situated at Pune, India. 12

| | Dr. € | Cr. € |
|---|---------------|---------------|
| Furniture | 4,000 | |
| Stock as on 1 st January, 2020 | 1,867 | |
| Debtors | 800 | |
| Cash at Bank | 200 | |
| Head Office | | 3,800 |
| Creditors | | 567 |
| Sales | | 14,000 |
| Purchases Local | 233 | |
| Expenses | 600 | |
| Goods from Head Office | 10,667 | |
| Total | 18,367 | 18,367 |

Head Office provides you the following details :

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London Branch Account

Dr.

Cr.

| | ₹ | | ₹ |
|-------------------------|-----------------|----------------|-----------------|
| To Balance b/d | 1,35,000 | By Bank | 4,79,333 |
| To Goods sent to Branch | 4,87,667 | By Balance c/d | 1,43,334 |
| | 6,22,667 | | 6,22,667 |

Additional Information :

- (1) Goods are sent to Branch at 10% plus cost and the Branch sells goods at 25% on invoice price (Including local purchase). Closing stock includes only stock received from H.O.
- (2) Furniture was acquired on 1st January, 2020 when € 1.00 = ₹ 70. Furniture is to be depreciated at 10%.
- (3) The Branch Manager is entitled to a commission of 10% on Profits of the Branch.
- (4) Rates of Exchange were, on 1st January, 2020 € 1.00 = ₹ 70, on 31st December, 2020 € 1.00 = ₹ 80 and Average € 1.0 = ₹ 75.

You are required to prepare, considering London Branch as an Integral Foreign operation of Alpha & Co. :

- (i) Branch Trading and Profit & Loss Account in Euro.
 - (ii) Convert Trial Balance in Indian Currency.
 - (iii) Branch Trading and Profit & Loss Account and Branch Account in Indian Currency in the books of Head Office.
- (b) MS Enterprises has four Departments viz. A, B, C & D. 4
- (i) **Department A** transfer goods to department B at a profit of 30% on cost, department C at 25% on cost and department D at 20% on cost.
 - (ii) **Department B** transfer goods to department A at a profit of 25% on sales, department C at 25% on sales and department D at 20% on sales.

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(iii) **Department C** transfer goods to department A at a profit of 40% on cost, department B at 30% on cost and department D at 20% on cost.

(iv) **Department D** transfer goods to department A at a profit of 30% on sales, department B at 25% on sales and department C at 25% on sales.

Goods transferred between the departments during the F.Y. 2020-2021 were as follows :

| | Department A (₹) | Department B (₹) | Department C (₹) | Department D (₹) |
|-------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| From Department A | — | 1,95,000 | 1,75,000 | 1,20,000 |
| From Department B | 1,00,000 | — | 50,000 | 70,000 |
| From Department C | 87,500 | 91,000 | — | 1,11,000 |
| From Department D | 1,50,000 | 90,000 | 85,000 | — |

You are required to calculate unrealized profit of each department and unrealized profit in total.

7. Answer any four of the followings :

- (a) State any four qualitative characteristics of the financial statements which will improve the usefulness of the information furnished therein. **4**
- (b) State any four consequences which will happen in a partnership after adjudication of a partner as an insolvent in a court of Law. **4**

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(c) Sunshine Limited went into voluntary liquidation on 31st March, 2021. 4

A liquidator was appointed for the same. The remuneration payable to the Liquidator is as follows :

- (i) 2% on Assets realized
- (ii) 3% on payment to Preferential Creditors
- (iii) 3% on payment to Unsecured Creditors.

The Assets realized was ₹ 45,00,000. The outstanding to be settled is as follows :

- (i) Preferential Creditors ₹ 12,50,000
- (ii) Secured Creditors ₹ 20,00,000
- (iii) Unsecured Creditors ₹ 15,00,000

You are required to calculate Remuneration payable to Liquidator.

(d) Following is an extract from Trial Balance of Overseas Bank as at 31st March, 2021 : 4

| | |
|--|---------------------|
| Bills discounted | (₹) 13,87,500 (Dr.) |
| Rebate on bills discounted not due on March 31 st , 2020 | (₹) 25,180 (Cr.) |
| Discount received | (₹) 1,08,709 (Cr.) |

An analysis of the bills discounted is as follows :

| S. No. | Amount (₹) | Due Date | Rate of Discount (%) |
|--------|------------|------------|----------------------|
| (i) | 2,40,000 | 05/05/2021 | 14 |
| (ii) | 3,86,000 | 12/07/2021 | 13 |
| (iii) | 2,52,000 | 25/08/2021 | 15 |
| (iv) | 5,09,500 | 06/07/2021 | 16 |

Calculate Rebate on Bills Discounted (Nearest rupees) outstanding as at 31-3-2021 and the amount of discount to be credited to the profit and loss account.

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- (e) Pass the necessary Journal Entries in the books of Head Office to rectify / adjust the following for the year ended 31st March 2021 : **4**
- (i) Head Office made payment of ₹ 50,000 for purchase of goods by Branch and debited the same to its own Purchases Account.
 - (ii) A remittance of ₹ 27,500 sent by the Branch on 28th March, 2021 was not received till 2nd April, 2021.
 - (iii) Goods sent to Branch costing ₹ 12,500 were stolen during transit. The Branch Manager refused to accept any liability.
 - (iv) Head Office paid ₹ 7,500 as Salary to Branch Accountant but the amount paid has been debited by the Head Office to Salaries and Wages Account.

| Particulars | Debit | Credit | Sl. No. |
|-------------|-------|--------|---------|
| | | | (i) |
| | | | (ii) |
| | | | (iii) |
| | | | (iv) |

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