Roll No. ....

INTERMEDIATE (IPC)
GROUP II - PAPER 5
ADVANCED ACCOUNTING

NOV 2018

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

KSM

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.

Working notes should form part of the respective answers.

Marks

1. Answer the following questions :

(a) A machine was given on 3 years operating lease by a dealer of the machine for equal annual lease rentals to yield 30% profit margin on cost ₹ 1,50,000. Economic life of the machine is 5 years and output from the machine are estimated as 40,000 units, 50,000 units, 60,000 units, 80,000 units and 70,000 units consecutively for 5 years. Straight line depreciation in proportion of output is considered appropriate. Compute the following : **5**

(i) Annual Lease Rent

(ii) Lease Rent income to be recognized in each operating year and

(iii) Depreciation for 3 years of lease.

(b) Shama was working with ABC Ltd. drawing monthly salary of ₹ 25,000 per month. She went on maternity leave with pay for 7 months i.e. from 01-01-2017 to 31-7-17. Her salary for 3 months was not provided for in financial statements for F.Y. 2016-17 due to omission. When she joined after leave period, the whole salary for 7 months was paid to her. You are required to **5**

(i) Pass the necessary journal entries in F.Y. 2017-18 to record the above transaction as per accounting standard-5 and state reason for the same.

(ii) Would the treatment have been different, if Shama was terminated on 01-01-2017 and was reinstated in service by the court w.e.f. 01-08-2017 with instruction to pay Shama salary for the intervening period i.e. 01-01-2017 to 31-07-2017.

Marks

(c) With reference to AS-29, how would you deal with the following in the annual accounts of the company at the Balance Sheet dates : 5

(i) An organization operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety percent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and ten percent arise through the extraction of oil. At the balance sheet date, the rig has been constructed but no oil has been extracted.

(ii) During 2016-17 Ace Ltd. gives a guarantee of certain borrowings of Brew Ltd., whose financial condition at that time is sound. During 2017-18, the financial condition of Brew Ltd. deteriorates and at 31st Dec. 2017 it goes into Liquidation. (Balance Sheet date 31-3-17)

(d) RC Ltd. is showing an intangible asset at ₹ 72 lakhs as on 31-3-18. This asset was acquired for ₹ 120 lakhs as on 01-04-12 and the same was used from that date. The company has been following the policy of amortization of the intangible assets over a period of 15 years, on straight line basis. 5

Comment on the accounting treatment of asset with reference to AS-26 and also give the necessary rectification journal entry.

Marks

2. P, Q and R are partners sharing profit and losses in the ratio 2 : 2 : 1. The partners decided to dissolve the partnership on 31st March, 2018 when their Balance Sheet was as under : 16

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts :		Land & Building		90,000
P	40,000	Plant & Machinery		30,000
Q	40,000	Furniture		17,000
General Reserve	41,000	Investments		10,000
R's Loan A/c.	10,000	Book Debts	40,000	
Loan from D	80,000	Less : Prov. for bad		
Trade Creditors	20,000	debts	(4,000)	36,000
Bills Payable	8,000	Stock		24,000
Outstanding Salary	5,000	Bank		9,000
		Deferred Advertisement Expenses		8,000
		Capital withdrawn 'R'		20,000
Total	**2,44,000**	**Total**		**2,44,000**

The following information is given to you :

(i) Realisation expenses amounted to ₹ 12,000 out of which ₹ 2,000 was borne by P.

(ii) A creditor agreed to takeover furniture of book value ₹ 8,000 at ₹ 7,200. The rest of the creditors were paid off at a discount of 6.25%.

Marks

(iii) The other assets realized as follows :

Furniture	–	Remaining taken over by R at 90% of book value
Stock	–	Realised 120% of book value
Book Debts	–	₹ 8,000 of debts proved bad, remaining were fully realized
Land & Building	–	Realised ₹ 1,10,000
Investments	–	Taken over by P at 15% discount

(iv) For half of his loan, D accepted Plant & Machinery and ₹ 5,000 cash. The remaining amount was paid at a discount of 10%.

(v) Bills payable were due on an average basis of one month after 31st march, 2018, but they were paid immediately on 31st March @ 6% discount "per annum".

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form in the books of Partnership firm.

3. (a) Sports Ltd. issued 4,00,000 shares of ₹ 10 each at a premium of ₹ 5. **8**

The entire issue was undertaken as follows :

P – 1,20,000 shares (Firm underwriting 9,000)

Q – 60,000 shares (Firm underwriting 6,000)

R – 1,80,000 shares (Firm underwriting 12,000)

S – 40,000 shares (Firm underwriting 3,000)

Marks

Total subscriptions received by the company (excluding firm underwriting) were 3,60,000 shares.

The marked applications (excluding firm underwriting) were as follows :

P – 75,000

Q – 47,000

R – 1,25,000

S – 43,000

Also, the underwriting contract provides that credit of marked applications and benefit of firm underwriting is given to individual underwriter.

Determine the liability of each underwriter (number of shares).

(b) In the books of M/s. Raja Ltd., there are 8% debentures with opening balance (01-04-2017) of ₹ 40,00,000 divided into 40,000 fully paid debentures of ₹ 100 each issued at par. **8**

– Interest on debentures is paid half-yearly on 30th of September and 31st March every year.

– The company purchased its own 7,500 debentures on 30-04-2017 @ 97 (ex-interest) per debenture.

– The company cancelled 4,000 debentures on 31-12-2017 out of 7500 debentures acquired on 30-04-2017.

– The company resold 2,000 of its own debentures in the market @ ₹ 105 (cum-interest) per debenture on 28-02-2018.

You are required to prepare :

(i) Own debenture account

(ii) Interest on debentures account

Marks

4. The Summarised Balance Sheet of M/s. NTC Limited as on 31st March 2018 is given below : 16

Liabilities	Amount (₹)	Amount (₹)
Share Capital		
15000 equity shares of ₹ 100 each	15,00,000	
10000, 7% cumulative preference shares of ₹ 100 each	10,00,000	25,00,000
Reserves & Surplus		
General Reserve	3,00,000	
Profit & Loss A/c.	(4,20,000)	(1,20,000)
Non-current Liabilities		
Loan from Directors		2,20,000
Current Liabilities		
Trade Payables	11,30,000	
Proposed Dividend	1,10,000	
Expenses Payable	1,60,000	14,00,000
Total		**40,00,000**
Assets		
Non-Current Assets		
Tangible Assets		
Plant & Machinery	15,00,000	
Building	2,75,000	17,75,000
Intangible Assets		
Patents		2,00,000
Current Assets		
Stock	7,15,000	
Trade Receivable	11,35,000	
Bank	1,75,000	20,25,000
Total		**40,00,000**

Marks

Due to disturbed market conditions, the company suffered losses since last 3 years and hope for a better position in the future. The following scheme of reconstruction has been agreed upon and duly approved by all concerned :

(1) Equity shares to be converted into 1,50,000 shares of ₹ 10 each.

(2) Equity shareholders to surrender to the company 80 percent of their holdings.

(3) Preference shareholders forego their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 9% preference shares.

(4) Trade payables agree to reduce their claim by 40% in consideration of their getting shares of ₹ 2,50,000 out of the surrendered equity shares.

(5) Directors agree to forego the amounts due on account of loan.

(6) Surrendered shares not otherwise utilized to be cancelled

(7) Assets to be reduced as under :

	₹
Patent by	2,00,000
Plant & Machinery by	2,00,000
Inventory by	1,70,000

(8) Trade receivables to the extent of ₹ 8,50,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 3,50,000.

(10) Proposed dividend is paid to the equity shareholders.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 30,000

(13) Further 20,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the company.

Marks

5. (a) From the following information prepare the Profit & Loss A/c of Indus Bank Ltd. for the year ending 31st March, 2018. Also give necessary schedules. 10

Particulars	Figures in '000
Interest earned on term loans	2,550
Interest earned on term loans classified as NPA	731
Interest received on term loans classified as NPA	238
Interest on cash credits and overdrafts	5,663
Interest earned but not received on cash credit and overdrafts treated as NPA	923
Interest on deposits	4,120
Commission	201
Profit on sale of investments	1,876
Profit on revaluation of investments	342
Income from Investments	2,174
Payments to and provision for employees	2,745
Rent, Taxes and Lighting	385
Printing and Stationery	62
Director's fees, allowances and expenses	313
Repairs and Maintenance	56
Depreciation on Bank's property	99
Insurance	43

Marks

Other Information :

Make necessary provision on Risk Assets :

Particulars	Figures in '000
Standard	4,700
Sub-Standard	1,900
Doubtful Assets not covered by security	400
Doubtful Assets covered by security for 1 year	40
Loss Assets	300
Investments	3,600

Bank should not keep more than 25% of its investments as 'held for maturity' investment. The market value of its best 75% investment is ₹ 1,875 as on 31st March, 2018.

(b) Welcome Insurance Co. Ltd. furnishes you the following information : **6**

On 31st March, 2017 it had reserve for unexpired risk to the tune of ₹ 100 Cr. It comprised of ₹ 35 Cr. in respect of Marine Insurance business, ₹ 50 Cr. in respect of Fire Insurance business and ₹ 15 Cr. in respect of Miscellaneous Insurance business.

(i) It is the practice of Welcome Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of Marine Insurance Policies and at 50% of net premium income in respect of Fire and Miscellaneous income policies.

Marks

(ii) During 2017-18 the following business was conducted :

(₹ in Crores)

	Marine	Fire	Miscellaneous
Premium collected from :			
(a) Insureds in respect of policies issued	35	105	28
(b) Other insurance companies in respect of risks undertaken :			
Received during the year	12.5	26.3	7.8
Receivable on 01-04-2017	3.2	9.8	1.3
Receivable on 31-03-2018	4.4	15.5	2.6
Premium paid/payable to other insurance companies on business ceded	7.5	5.3	8

You are asked to :

(a) Pass Journal Entries relating to "Unexpired Risk Reserve".

(b) Show in columnar form "Unexpired Risk Reserve A/c for F.Y. 2017-18.

Marks

6. (a) Ram, Sham and Mahaan sons of Prabhu Dyal are running Punya Hotel in Chennai. Ram is heading Room division (A), Sham is heading banquet division (B) and Mahaan is heading Restaurant division (C). Each of the three brothers would receive 60% of the profits, if any, of the department of which he was incharge and remaining combined profits would be shared in 2 : 2 : 1 ratio. The following is the Trading and Profit and Loss Account of the firm for the year ended March 31, 2018 : 12

	(₹)	(₹)		(₹)	(₹)
To Opening Stock :			By Sales :		
Room (A)	25,650		Room (A)	2,70,000	
Banquet (B)	18,000		Banquet (B)	1,65,000	
Restaurant (C)	19,500	63,150	Restaurant (C)	86,700	5,21,700
To Purchases :			By Discount received		1,650
Room (A)	2,35,000		By Closing Stock :		
Banquet (B)	1,56,000		Room (A)	55,300	
Restaurant (C)	84,200	4,75,200	Banquet (B)	31,800	
To Salaries	34,400		Restaurant (C)	42,500	1,29,600
To Royalties	8,000				
To Parking fee & car washing charges	9,600				
To Discount allowed	2,500				
To Misc. Exp.	7,000				
To Depreciation	1,160	62,660			
To Net Profit		51,940			
Total		**6,52,950**	**Total**		**6,52,950**

Prepare : (I) Departmental Trading and Profit and Loss Account and (II) Profit and Loss Appropriation Account after incorporating the following information :

(i) Closing stock of Dept. B includes goods amounting ₹ 3,500 being transferred from Dept. A

(ii) Stock value ₹ 9,300 and other goods of the value of ₹ 1,500 were transferred at selling price by Departments A and C respectively to Department B.

(iii) The details of salaries were as follows :

(1) Admin Office 60%, Pantry 40%

(2) Allocate Admin Office in the proportion of 3 : 2 : 1 among the Departments A, B, C

(3) Distribute Pantry expenses equally among the Department A and B.

(iv) The parking fee is ₹ 500 per month which is to be divided equally between Departments A, B & C.

(v) All other expenses are to be allocated in ratio of 2 : 2 : 1.

(vi) Discounts received are to be credited to the three Departments as follows :

A : ₹ 650; B : ₹ 600; C : ₹ 400.

(vii) The opening stock of Department B does not include any goods transferred from other departments and closing stock of Department B does not include any stock transferred from Department C.

Marks

(b) From the following details of Western Branch Office of M/s. XYZ Corp. for the year ending 31st March, 2018, ascertain branch stock reserve in respect of unrealized profit in opening stock and closing stock : 4

(i) Goods are sent to the branch at invoice price and branch also maintains stock at the same price.

(ii) Sale price is cost plus 40%.

(iii) Invoice price is cost plus 15%.

(iv) Other information from accounts of branch :

	₹
Opening Stock as on 01-04-2017	3,45,000
Goods sent during the year by HO to BO	16,10,000
Sales during the year	21,00,000
Expenses incurred at the branch	45,000

7. Answer any **four** :

(a) State with reason whether the following cash credit accounts are NPA or not : 4

	Case-1	Case-2	Case-3	Case-4
Sanctioned limit	50,00,000	60,00,000	55,00,000	45,00,000
Drawing power	44,00,000	56,00,000	50,00,000	42,00,000
Amount outstanding continuously from 01-01-18 to 31-03-18	40,00,000	48,00,000	56,00,000	30,00,000
Total interest debited for the above period	3,20,000	3,84,000	4,48,000	2,40,000
Total credits for the above period	1,80,000	Nil	4,48,000	3,20,000

Marks

(b) Pratham Ltd. (a non-listed company) has the following Capital structure as on 31st March, 2018 : **4**

Particulars	₹	₹
Equity Share Capital (shares of ₹ 10 each fully paid)		30,00,000
Reserves & Surplus		
General Reserve	32,50,000	
Security Premium Account	6,00,000	
Profit & Loss Account	4,30,000	
Revaluation Reserve	6,20,000	49,00,000
Loan Funds		42,00,000

You are required to compute by Debt Equity Ratio Test, the maximum number of shares that can be bought back in the light of above information, when the offer price for buy back is ₹ 30 per share.

(c) From the following, you are required to calculate the amount of claim to be shown in the revenue account for the year ending 31st March, 2018 : **4**

Claim intimated in the year	**Claim accepted in the year**	**Claim paid in the year**	**(₹)**
2016-17	2016-17	2017-18	80,000
2017-18	2017-18	2018-19	65,000
2015-16	2016-17	2016-17	30,000
2015-16	2016-17	2017-18	70,000
2017-18	2018-19	2018-19	45,000
2017-18	2017-18	2017-18	3,50,000

Claim on account of Reinsurance was ₹ 1,22,000.

Marks

(d) XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. — 4

You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders and also pass journal entry for conversion and redemption of debentures.

(e) What are the basis of measurement of Elements of Financial Statements ? Explain in brief. — 4
